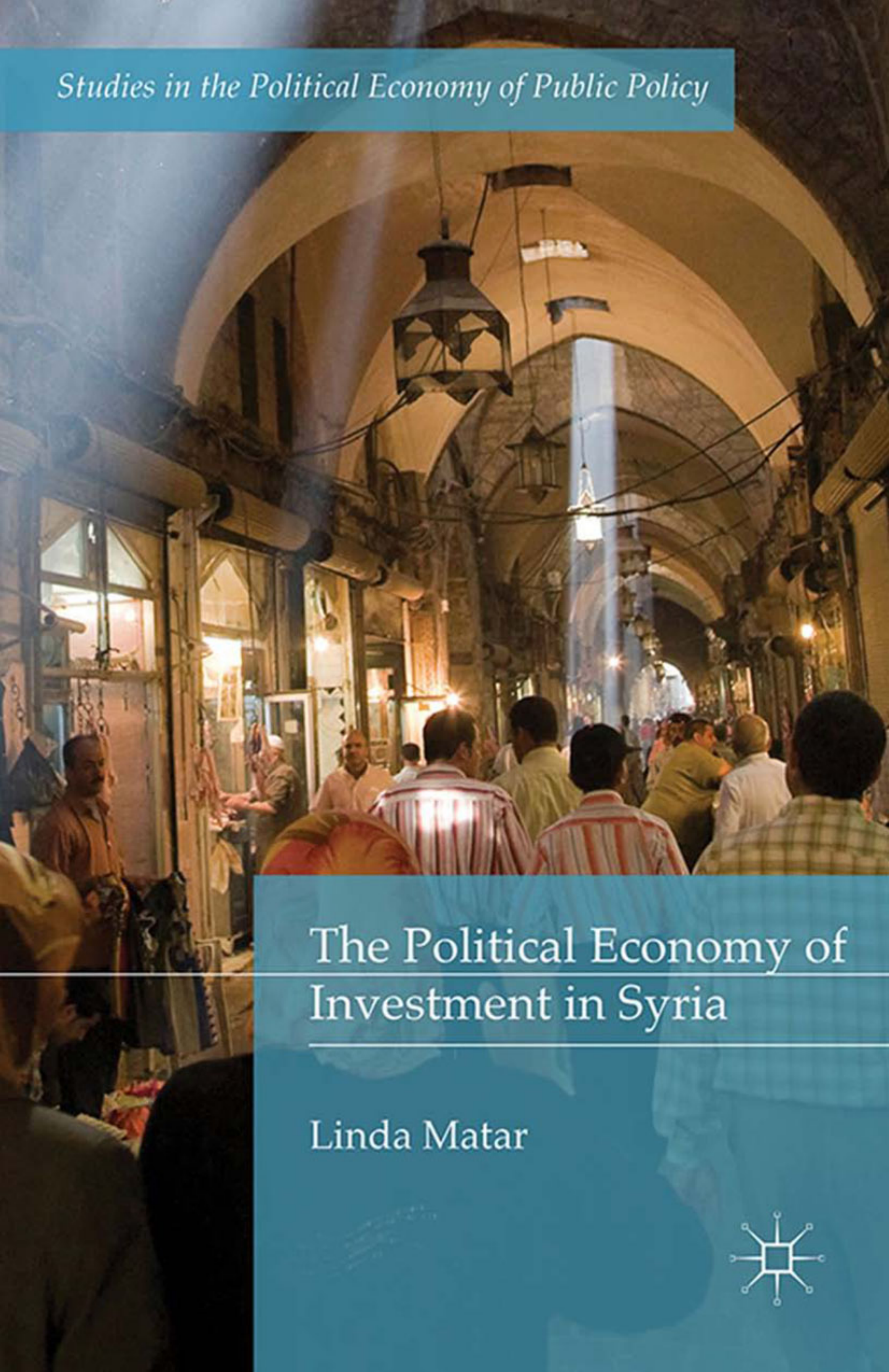

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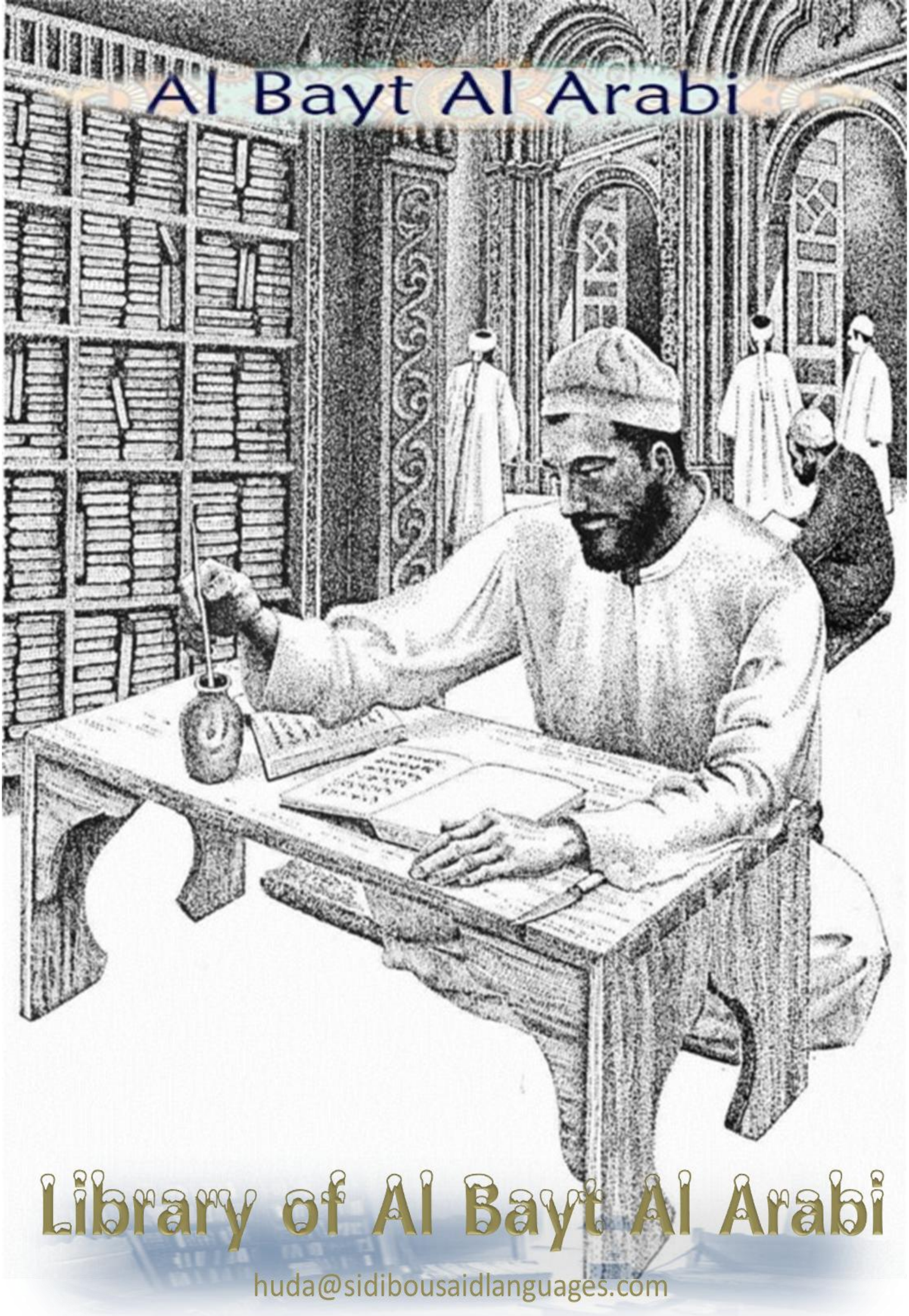
The Political Economy of Investment in Syria

Linda Matar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The Political Economy of Investment in Syria

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Preface

I embarked on this research five years prior to the Syrian uprising. During that time, social and economic conditions in Syria were visibly deteriorating. My observations in fieldwork during interactions with ordinary people and with Syrian experts were ominous. People struggled to earn a living and felt nostalgic about earlier times when necessities were affordable and the quality of public services was acceptable. Syria's journey to neoliberalism was not sustainable. In my discussions with state officials in 2007, I had put forth the obvious questions of rising inflation and income inequality. The standard reply was to confirm that these were problems, but to also add immediately that because Syria enjoys a geostrategic position it would become a pro-equity growth model for the whole region.

The opposite of that has happened. Syria is now a war-torn society. The Syrian state has lost territorial control over some of its geographical areas to the rebels who are fiercely fighting on the ground. The Syrian humanitarian crisis is one of the worst in recent history: more than 220,000 people killed, 7.6 million internally displaced and 4 million refugees in neighbouring countries (Turkey, Lebanon, Jordan and Iraq). Altogether, 12.2 million people, of whom 5.6 million are children, are in need of humanitarian assistance, and four in five Syrians are living in poverty. A rough estimate of the destruction of the infrastructure stands at around US$202.6 billion (BBC, 2015). There are so few words that could capture the ongoing tragedy. Syria is a model that others must steer away from.

War has its own momentum. What had started as peaceful and secular pro-democracy protests in the southern city of Dera'a has quickly transformed into a brutal proxy war between regional and international powers. During the course of events, the battle descended into a full-scale violent conflict between the Assad regime and its allies on one side, and the militarised opposition on the other. No sooner had the uprising begun than the funding and arming of all sides of the conflict commenced as well. The reason, of course, is straightforward: Syria is geostrategic. For the first time in recent history, China had intervened in the Security Council and vetoed resolutions concerning areas outside its immediate vicinity to block American and NATO intervention. It is not only recently that Syria has become geostrategic; it has been so

historically. When advancing on Damascus in 1920 after the fall of the Ottoman Empire, the French general Henri Gouraud was asked why France was putting so much effort and spending in a place that apparently lacked economic potential. The general's response was: Syria is geostrategic (discussion with prominent historian of the Arab World, Raghid el-Solh). Syria is situated at the intersection of three continents, making a foothold there crucial to the global imperialist balance of forces.

As oil became more vital to the global economy, Syria gained yet more importance; not, however, because it has large oil reserves, but because the control of the huge reserves and flows in the Gulf fall within reach of its territory. There is an international balance of power determined by the degree of imperialist hegemony over a region to which Syria belongs. Apart from the strong economic and military cooperation between Syria and Russia, Syria's port of Tartus hosts the only Russian naval base on the Eastern Mediterranean. A revolt that could potentially swing Syria away from the Russian camp would strengthen the American side.

With such international overdetermination, it was inevitable that Syria's post-Arab Spring trajectory would be different from those of other Arab countries. Of course, there are both commonalities and differences among the Arab uprisings. The main commonality is the degeneration of living conditions that pushed the working classes, especially disenfranchised youth, to break the fear barrier as the image of invincible regimes collapsed when the Tunisian president fled.

Syria, however, differs in the specific way in which power is articulated nationally and internationally. Nationally, the system is army rule *par excellence*, and the structure of the army itself is configured with the purpose of ensuring regime stability at any cost. This means that there are certain army divisions so loyal to the regime that they can accomplish two functions simultaneously: keep dissent within the army at bay and crush popular opposition by brute force. Internationally, weakening Syria's military and social defence structure is the aim of the United States and many of Syria's surrounding neighbours. The destruction of Syria's factories, schools, and hospitals in addition to the weakening of its human capacities weaken its national security and, therefore, its Sino-Russian allies. The rising structural disparity in the regional balance of forces as a result of a weakened Syria would be in the interest of certain US-allied neighbouring and international states. The task of putting Syria back together when the US and its allies benefit from its destruction adds to the insuperable impasse of international powers – Sino-Russian

and American – that are at loggerheads. The Sino-Russian rapport will do all it can to support the regime, as it has done up to the present.

It is simplistic to ascribe the Syrian conflict to sectarianism alone. The actual picture is multi-layered and one in which the currents of sectarian allegiances flow over and through the various internationally tied classes. The substance is class: the actual impoverished people of all sects who neither own enough assets to make their own living or receive enough in wages to survive decently. Much of the Syrian working class has been divided by placing its sectarian identities above its common class interest. Nearly all internal and external political players in the Syrian conflict have placed their own interests of geostrategic positioning in Syria above the interests of ordinary Syrians and have therefore continued to intensify sectarianism via funding and indoctrination.

Classes in Syria, as elsewhere, have both international and regional ties. The class as an active political force extends beyond the Syrian borders. But the conservative Sunni opposition takes up the religious sect as its form of political identity only in relation to its ties to other Sunni funding entities, especially the Gulf. The Free Syrian Army, which adhered to a secular democratic agenda at the beginning of the conflict, lost financial and military support from its external allies and much territory to the so-called Islamic State of Iraq and Syria (ISIS), the extremist Al-Qaeda splinter organisation in Syria and Iraq and the Al-Nusra Front (the Al-Qaeda affiliate that was the strongest Islamic military force in Syria before the rise of ISIS). This happened because the external forces have no interest in promoting a secular democratic transition in Syria. On the regime side, the sensitive and important military units of the army belong to the Alawite sect – the sect of the president – whose support comes from Iran.

The French colonialists attempted to set up several sectarian mini-states within Syria, but their efforts failed. Syrians of all sects were united against French colonials. The French (during the Mandate) also structured the army divisions along sectarian lines, creating Alawite, Druze, and Sunni divisions. During the post-independence development period, these sectarian lines nearly vanished. Following Syria's union with Egypt, it was president Gamal Abdel-Nasser, a Sunnite, who promoted more of the Alawite Pan-Arabist officers, many of whom were from peasant origins, at the expense of the urban Sunni officers. As the social and economic crisis in Syria began to take root during the Assad era and resources started to flow up to the ruling class, endangering regime stability, government services also began to be devolved on the basis of allegiance to the regime, of which sectarian allegiance was one.

Sectarianism began to be elevated to serve the interests of the ruling minority. But the disparities were not only sectarian-based. There were poor people in every sect, especially, farmers in rural areas. The rural–urban divide resulting from the neglect of agriculture mainly affected farmers of the Sunni population, simply because Sunnis were the majority, but farmers of other sects were hurt too. The regime's dependence on sectarianism made it easy for outside funders of and benefactors from the Syrian conflict to position themselves inside Syria via sect linkages.

The snowballing crisis, which began with early neoliberal reforms and is still ongoing in the war that became an aggression against Syria's sovereignty, had, in its interior, created both sectarian and nonsectarian divisions, splitting ordinary working people and turning them against each other. In comparison, the Egyptian and the Tunisian uprisings did not experience significant rifts between sects or ethnic groups. Instead, their identity divisions were social and regional, for example, between peasant and urban worker. Their revolutions splintered society along the lines of Political Islam versus secular nationalism. The much-talked-about sectarian divisions in Syria acquired their notoriety because of the distressed (mainly Sunni) rural areas that were the first to rise against the regime. But there are no definitive sectarian lines that would adequately describe the social divisions in Syria. Many Sunnis side with the regime and key figures in the opposition are Alawites.

Matters became extremely and lethally complicated with the rise of ISIS and its occupation of vast swaths of land between Iraq and Syria. The fanning of the fires of sectarianism across the Muslim world sets the ground for civil wars that may extend across Asia and Africa. There is now a huge war – and war industry – in the making in and around Syria. But the solution to the problem of ISIS and other warring factions is, first of all, political. Political détente at the international level would create the breathing space to curtail the flows of the resources and funding to the various warring factions whose reproduction depends on continuing the war.

On the ground, ruthless fighting continues between the regime's forces and ISIS and other rebel factions, as each side tries to wrest more territorial control. There is no resolution within sight for this conflict. The international players fuelling the conflict with weapons and resources have much more to win than the position the parties they support gain on the ground. The conflict itself has become an economic enterprise funded by internal and external sources. Its output is the destructive process itself, after which the shifting imperialist-power landscape is the

service produced in return for the funding. The service is the power derived from control of Syria. A stronger US position in a strategic country, such as Syria, drives away other imperialist countries that vie for bigger share of global rents. Unless the services that the conflict emits to international players become of no value, the conflict will not abate. That is the historical contingency we must grapple with.

While this book does not deal with the post-uprising period, it does nevertheless provide a factual and theoretical analysis of one of the key components upon which society thrives: investment. Investment, in the right quantity and kind, drives growth, productivity, jobs, and prosperity. Investment in Syria prior to the uprising tottered, and all the other interrelated socio-economic variables followed suit. These deteriorating objective conditions accumulating before the spark of the uprising set the stage for a greater social explosion. The work explores the quality and quantity of investment and the class in charge of investment that short-changed the Syrian working population.

List of Abbreviations

ACB	Agricultural Cooperative Bank (Syrian)
ACU	Agency for Combating Unemployment (Syrian)
AMF	Arab Monetary Fund
ASCTE	Arab Syrian Company for Touristic Establishments
BSO	Bank of Syria and Overseas
CMC	Credit and Monetary Council
ECLA	Economic Commission of Latin America
EIU	Economist Intelligence Unit
FDI	foreign direct investment
FIRE	Finance, Insurance and Real Estate
GAR	Global Assessment Report (on Disaster Risk Reduction)
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
IFI	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
IRIN	Integrated Regional Information Network
ISI	Import-Substitution Industrialisation
ISIS	Islamic State of Iraq and Syria
LD	Legislative Degree
LDCs	Least Developing Countries
LTE	Long-Term Expectations
MEED	Middle East Economic Digest
MEK	Marginal Efficiency of Capital
MPK	Marginal Productivity of Capital
NATO	North Atlantic Treaty Organization
OPEC	Organization of the Petroleum Exporting Countries
PNF	Progressive National Front
SIA	Syrian Investment Agency
SNA	System of National Accounts (United Nations)
TRANSTOUR	Syrian Transport and Tourism Marketing Company
UAR	United Arab Republic
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

UNIDO	United Nations Industrial Development Organization
REDA	Real Estate Development Authority
SCPSS	Syrian Centre for Political and Strategic Studies
SNC	Syrian National Council

1
Introduction

1 The political economy of Syria before the uprising

The Syrian uprising began in March 2011, initially as a result of the domino effect of the Arab uprisings that were sweeping the region; later the conflict evolved into full civil war. Nevertheless, the causes of the unrest remain complex and multi-layered. In political-economic terms, the Syrian uprising can be traced back to the Hafiz Assad regime and to Assad's implementation of macroeconomic strategies that gradually phased out the traditional social support systems, particularly in the countryside. More importantly, the class structure that oversaw the allocation of resources during the Hafiz and Bashar Assad regimes underwent a crucial change.[1] It began to allocate resources to the nonproductive sectors that generated wealth for a certain segment of society – the ruling elites, including officers in the army and security forces and their powerful business partners – rather than for the general public. This subsequently intensified social polarisation, the driver of social unrest. These points will be further elaborated throughout the book.

During the 1960s, Syria's state-controlled economic structure took direct responsibility for initiating an autonomous and internally induced path to economic development. The state-led economy was characterised by public-sector dominance, administered prices, a system of multiple exchange rates, and import restrictions. Much effort went into expanding the public sector, amounting to more than 60 per cent of total investment or gross fixed capital formation (GFCF) in the 1960s and early 1970s (Hinnebusch, 2001a). The state's strategy to induce import-substituting investment was aimed at creating a productive and independent national economy so as to avoid any chance of returning to the post-independence *ancien régime*.

At first, the state's way of increasing public investment was to channel resources to sectors that secured social benefits and exhibited high potential for employment creation and growth (al-Hamsh, 2004 and Lawson, 1997). A second aim was to preserve the privileged role of the public sector in the real economy – less for economic than for political reasons – as Syria maintained its regional role as a 'front-line' state with regard to Israel (fieldwork interview with Issam Al-Zaim, 2007). Compared to today's conditions, the Syrian population enjoyed high living standards, as GDP per capita at constant prices grew at an annual rate of 6 per cent during the 1970s (World Bank, 2014). It was also a time when basic necessities and food provision were subsidised by the state. This meant that the majority of Syrians was given access to basic health, education, and other public services.

This trend did not last long. During the Hafiz and Bashar Assad regimes, Syria gradually eased itself away from its state-controlled and state-interventionist past and gradually lifted state controls. In the tourism and agricultural sectors, a new form of private-public partnership or mixed-sector cooperation was initiated in the 1970s, laying the foundation for a piecemeal but tailored expansion of the market-driven economic order. Starting in the late 1980s, the Syrian economy underwent a gradual transformation from a state-controlled to a market-oriented economic structure as the regime cautiously embarked on a package of market-friendly reforms in general, and investment liberalisation in particular. Both were intended to kick-start private investment and boost overall GFCF.

The Hafiz Assad regime of 1970–2000 introduced phases of open-door economic policies known as *infitah*, which focused on investment liberalisation as part of the effort to give a greater role to the private sector and its activities. In 1991, the Assad regime promulgated the new Investment Law No. 10, the first reform measure that revived private-sector activities and permitted Syrian and foreign investors to invest in previously prohibited sectors (including the industrial sector). The main aim was to promote industrial types of investment. The Law was a salient qualitative change, because through it, the authorities were able to reverse the statist policies of the preceding period and reinstate private property ownership. Although the private sector was never abolished during the state-controlled economic period, its activities remained limited to commerce and trade. Nevertheless, it was effectively revived with the introduction of Law No. 10. The Law offered fiscal and financial privileges, which were costly to the Syrian government, in order to promote investment and boost GFCF.

Reform measures did not stop there; rather, they accelerated during the second Assad regime – the Bashar regime – in the post-2000 period. Two amendments to Law No. 10 were introduced in 2000 and 2007 with the aim of removing all state controls that were inhibiting private investment, both domestic and foreign. In 2007, Legislative Decree No. 8 (hereafter LD No. 8) abolished the restriction on land ownership and allowed investors to own the land on which their investment projects were carried out. Moreover, the Bretton Woods institutions – the World Bank and the International Monetary Fund (IMF) – got involved in the Syrian liberalisation process and advised the state on how to develop its economic reforms. Toward the end of 2007, the Syrian authorities, as counselled by the World Bank and the IMF, launched a programme to phase out subsidies on oil products in order to streamline budget expenditure. Fertiliser subsidies were also removed, exposing farmers to sudden increases in the cost of production, which in turn dampened food production and distorted the self-sufficient nature of the Syrian economy (see Section 3). The Syrian policy-makers were convinced of the then widely accepted idea that a free market would drive growth, and that, although there might be a short-term welfare setback, eventually the 'trickle-down' in the form of job creation and other economic opportunities would surely follow. However, as will be demonstrated later in the book, an examination of the social and economic conditions that prevailed during the Hafiz and Bashar Assad regimes reveals that developmental and welfare gains never materialised.

A preliminary examination of investment data, as shown in Section 6, shows that, on average, the investment rate during the 1990s and 2000s remained low and erratic following the spread of investment reforms. The investment rate could not reach the peak that it had attained in late 1970s. Moreover, there was no boost in manufacturing production despite the promulgation of market-friendly reforms (State Planning Commission, 2005). Hence the basic research question arises: Why did manufacturing investment not respond to the liberalisation measures that targeted private investment with attractive fiscal and financial incentives? Robinson (1964) argues that private investment reflects the inherent behaviour or expectations of capitalists, who aspire to accumulate more profit, driven primarily by their 'animal spirits.' However, in the presence of deep-seated institutional rigidities that have been shaped by regional and international changes and developments, how is investment determined in a country like Syria that is geo-strategically important in the Arab Near East?[2] More aptly, what were the basic determinants of investment during the 1960s? and from the 1990s onward, how did subsequent changes affect the investment pattern?

To answer these questions, research must situate the analysis of investment in Syria in its historical context and examine the socioeconomic structure and political preconditions that set the course of capital accumulation.[3] This historical or political-economy approach intertwines the analysis of investment with human agency, identifying the politically empowered social force that pushed for investment liberalisation and took responsibility for the process of capital accumulation. The terms *political economy* and *historical approach* are used synonymously throughout this work. Such a holistic approach provides a more comprehensive analysis of investment throughout Syria's different developmental phases.

Few authors address the study of investment determination in Syria. Each places the study in a certain analytical context. For instance, Bassam Haddad talks about the formal and informal economic networks that emerged following Syria's economic liberalisation (Haddad, 2012). These networks took the form of a state-business coalition and became stronger in the 1980s and 1990s, because private investment activities undertaken within these networks had strong backing from the Syrian regime. Haddad argues that not only had these networks evolved and benefited from Syria's social, economic, and political factors and processes, but that they also played a crucial role in influencing the form and the extent of economic reforms, particularly regulatory and fiscal policy change.

Volker Perthes provides a sectoral analysis of investment in Syria by highlighting both the industrial and commercial subsectors of the private sector. He points out that trade and commercial activities constituted the bulk of private-sector activities following economic liberalisation. Investment in the industrial sector did not improve because industry was 'perceived as the more difficult way to profit' (Perthes, 1992a: 215), especially when investors were facing the possibility of a regime change and confiscation of their resources – as happened during Syria's nationalisation experience of the 1950s and 1960s.

Sylvia Polling talks about the potential private investment that could be kick-started – by local and Gulf investors – following the promulgation of Law No. 10 in 1991 (Polling, 1994). She addresses the Law, focuses on its main provisions and financial privileges, and mentions that the main rationale behind the Law was to attract 'direct inward investment.' However, Polling points out that investors might still be reluctant to undertake long-term commitments given, on the one hand, the political instability to which a country like Syria is subject to, and on the other, the contradictory and even conflicting laws in effect there.

Khalid Abdel-Nour highlights the challenges that domestic investment, especially industrial investment, had faced following the change in the investment climate from protectionism to competition. Abdel-Nour (2000) points out that Syrian industrialists had historically benefited from the Syrian Friendship Pact, the trade agreement between Syria and the USSR during the 1980s. These Syrian industrialists set up factories for the purpose of exporting low-quality goods – which could not compete with their higher-quality European equivalents – to the Soviet market. In this regard, Abdel-Nour (2000) points out that trade liberalisation and the lifting of state protection from local industry had exposed it to serious challenges, especially given that it had been protected from international competition by the Import-Substitution Industrialisation (ISI) policies enacted by the Ba'athist regime. Finally, Joseph Bahout (1994) discusses investment in the context of the Syrian 'business community,' which he defines as a hybrid group whose components had been shaped by various political and economical changes in the country during the past three decades.

The above-mentioned works of Abdel-Nour, Bahout, Perthes, and Polling are one-off article-contributions that analyse the development of the Syrian private sector and its subsectors following market liberalisation in the 1990s. Besides being outdated, they are merely descriptive and lack theoretical grounding in political-economic analysis and investment determination. Haddad's work, however, is recent and examines aspects of the political economy of Syria, but unlike this book, his work is more political than economic.

Haddad's work provides an analysis of relationships between the business community and the state apparatus and their articulation through formal and informal networks. Hence he describes network analysis as his conceptual framework. Haddad's approach is particularly interesting because it 'provides insights into and explanations of behaviour that are not readily available from an analysis of actors' attributes such as class, community, positionality' (Haddad, 2012: 172). Indeed, Haddad rightly observes that his way of approaching the topic enriches the class approach and complements it. Accordingly, this book follows the standard Marxian class approach and does not negate the facts revealed by observations concerning business networks. It does, however, situate theory in terms of its historical context. A class is a social relationship between agents, their forms of social organisation, and modes of appropriation in the process of self-reproduction and social reproduction. As a social relationship, rather than just an ensemble of people with a common relationship to social reproduction, a class is a process developing in real time, retaining or

negating its symbolic characteristics and collective memory, and evolving by meeting the demands of the necessities it faces by making changes in its organisational forms. Hence, the changing business networks are shifts in the forms of organisation of the social classes that align themselves with the material requirements of appropriation. In the case of capitalism, the ruling class, whose purpose is to accumulate profits exponentially, will take whatever measures are necessary to address the changing dynamics of wealth-making under capitalism.

This book equates the dominant social class with the agency of history. But a social class need not necessarily be confined to national borders. Processes of production, exchange, and investment under capitalism cut across borders and so do classes. In this work, I focus mainly on the investment aspect of the class relationship in Syria. The work identifies the social class or class alliances that assumed the agency of investment through control of the means of production; determining the amount and type of investment during a specific historical period. The book also reveals how changes in the agency of investment gave shape to new investment patterns. Situating the study of investment within class-based and historically determined conditions – which incorporate economic, social, and political factors – sheds additional light on the subject matter and on the way investment analysis can be handled and understood in a developing economy like Syria – an economy in dire need of enhancing its economic resources.

The regional and international political conditions prevailing during the 1990s differed sharply from those of the 1960s and early 1970s, which influenced the formation of the different agencies directing investment. From the late 1980s, the fall of the 'Soviet project' and the dictates of the neoliberal paradigm led Syria to reorient itself towards the Western orbit. Such political preconditions encouraged the state capitalists or state bourgeoisie, who aimed to move out of the 'state shell,' to form a new class alliance with the private bourgeoisie. This alliance gave rise to a new agent of investment, which made use of the market-friendly reforms to engage in profitable private-sector investments. This new agent of investment consequently pushed for new patterns of investment activities that served private as opposed to social interests. This process and its consequences are the thrust of analysis in this book.

2 Data and methodology

The existing literature on Syria's political economy is driven by ideological positions that sometimes sap the strength of the argument being

posited. Moreover, data on Syria's social and economic conditions is not only inconsistent, and at times, contradictory; but is also typically embellished to improve the regime's image. One can interpret the variances between existing sources by how they assess the relevance of data and statistics regarding Syria's national security. I, therefore, turned to the published and unpublished Arabic-language writings and analyses of Syrian economists and experts to gain greater insight into the local – and sometimes critical – viewpoints and observations of economic developments.

To begin with, data on Syria is not easily accessible. When I started working on the data in 2007, I found out that the official statistical bulletins published by the Central Bureau of Statistics were not available online. Moreover, investment data pertaining to licensed and implemented projects under Law No. 10 was not available. Although some data was eventually published in 2007, it was still unavailable to the general public, remaining accessible only to the local staff at the Syrian Investment Bureau (now known as the Syrian Investment Agency or SIA). The World Bank's *World Development Indicators* was useful, but not nearly enough.

For these reasons, it became essential to go to Syria and visit the Damascus-based Central Bureau of Statistics and the SIA. I was residing in Beirut at that time, so it was quite easy for me to make intermittent visits to Damascus and conduct my research. The process was quite protracted, as I had to rely on both direct and indirect methods to collect information and statistics from national sources. Data used in this study was mainly compiled from the *Syrian Statistical Abstracts* published by the Central Bureau of Statistics, the *Quarterly Bulletins* of the Central Bank of Syria, and the *Annual Investment Reports* published by the Investment Bureau or SIA – which at the time of field work were available only to government technocrats who were kind enough to pass them to me. Indirect methods of data compilation included extracting and piecing together data and information from my interviews, material from an array of Arabic-language writings by Syrian experts that I acquired during my stays in Damascus, and local and non-local newspaper articles.

During my research trips to Syria, I used a qualitative sampling method, or more aptly, a key informant sample. Because my visits were mainly concerned with learning about the process of economic liberalisation in general, and investment reforms in particular, and because I needed to investigate the investment climate in Syria and obtain a copy of Investment Law No. 10, I held interviews with selected subjects – state

officials and policymakers – capable of responding to my queries about the overall investment climate and the investment performance in Syria. I met with officials from the Agency for Combating Unemployment, the Central Bank, the Central Bureau of Statistics, the Chamber of Industry, the Federation of Chambers of Commerce, the Ministry of Economy and Trade, the Ministry of Finance, the Ministry of Industry, the Office of the Prime Minister, and the SIA.

Apart from summarising the history of economic liberalisation in Syria, these officials – who will remain anonymous in this book to ensure their safety given the current state of conflict – mentioned country-specific features under which the investment process took place.

Although these interviews were informative, they were politicised and could not be taken at face value. To compensate, I carried out interviews with Syrian experts, such as the late Issam Al-Zaim, the former Minister of Industry, Nabil Marzouk of the State Planning Commission, Maged Basil of the United Nations, and Ali Al-Za'tari, former Resident Representative of UNDP–Syria. These experts were instrumental in providing a critical assessment of the whole liberalisation process and in decoding national data and statistics. The interviews provided me with a concrete understanding of the economic and social outcomes – and shortcomings – of economic reform measures.

Data and technical information gathered from my research trips serve to justify my contention that the market-driven economic order, as manifested in Investment Law No. 10 and its amendments, promoted merchant-like investment activities of an ephemeral nature, because the new agent of investment carried out short-term, non-manufacturing and speculative ventures during the 1990s and 2000s. This data also validates my argument that the package of neoliberal reforms that accelerated during the Bashar regime was, in fact, anti-developmental. Given that the state bourgeois class was keen on transforming itself from a state-capitalist into a private capitalist class, the rapid pace of neoliberal reforms could not be slowed down, let alone reversed, in the later years before the uprising. These results were verified by some of my interviewees, who pointed out that Syria was transformed from a state-planned economy into a FIRE (Finance, Insurance and Real Estate) economy, as the bulk of investment activities during the last three decades were concentrated on services, telecommunication, real-estate speculation, trade-related activities, and short-term transport projects. Because the investment projects were ephemeral and short-lived endeavours, the process of healthy capital accumulation needed for the production of goods and services for the betterment of society encountered a crisis.

3 Syria: a traditionally self-sufficient economy

An analysis of GDP by economic sector shows that agriculture, and mining and manufacturing were foremost – each contributing at least 20 per cent of GDP – during the 1990s and the early 2000s (see Table 1.1). Until the discovery of significant crude oil reserves in the mid-1980s, agriculture was considered the backbone of Syria's economy.

Syria is traditionally an agrarian-based economy. Agricultural production contributed to the country's economic wealth, accounting for 20–25 per cent of GDP before the severe drought of 2006, after which the agriculture share out of GDP fell to 18 per cent in 2008 and then to 16 per cent in 2010 (see Table 1.1). Historically, Syria was economically self-sufficient, especially in basic food commodities, and exported wheat, fruit, and vegetables when favourable weather conditions enabled a surplus production. Approximately half the Syrian population is rural, the majority making a living from farming and livestock breeding. Employment figures in the agricultural sector vary from 19 to 30 or 40 per cent of the workforce.[4] The latter figure makes more sense if we take into account informal employment, which mainly takes place in the agricultural sector, and women's participation.

During the 1960s, the Ba'athist regime supported the agricultural sector. To this end, the Syrian Agricultural Cooperative Bank (ACB) was both a dispenser of interest-free farm loans and a distributor of inputs, including locally produced or imported materials – especially fertilisers – either directly to farmers or indirectly through cooperatives. The quantity of fertilisers and other inputs was pre-determined according to a

Table 1.1 GDP decomposition by economic sectors, at constant prices 2000, 1963–2010 (%)

	1963	**1985**	**1990**	**1995**	**2000**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Agriculture	39	24	25	23	25	23	23	24	21	18	19	16
Mining & Manufacturing	19	17	26	28	30	27	25	24	23	23	23	24
Building & construction	4	8	3	3	3	3	3	4	4	4	4	4
Wholesale & retail trade	21	23	20	21	15	18	20	18	21	22	21	20
Transport & communication	8	9	10	11	13	11	11	11	11	12	12	13
Finance & insurance	3	3	3	4	4	4	5	5	5	5	5	5
Social & personal services	2	3	2	2	2	3	3	3	3	4	3	4
Government Services	4	13	11	8	8	11	10	11	12	12	13	14

Source: Central Bureau of Statistics, *Syrian Statistical Abstract*, 2011 and other issues.

crop plan. The Syrian agricultural sector was traditionally dependent on the government's guidance and protection. Syria, among all major Arab states, invested most heavily in its agricultural sector and prevented losses of valuable agricultural land to residential and commercial construction. It improved the system of agricultural cooperatives and mobilised peasant activity in support of efficiency programmes (Owen, 1981). Cooperatives were turned over to the Peasant Union to ensure peasant participation in corporatisation and acquiescence in the agrarian plans (Hinnebusch, 1989: 41). The government closely intervened in production, pricing, import, and distribution of agricultural products and inputs. It purchased crops at prices that were above market levels and then sold them to farmers at subsidised prices to encourage production. The government established publicly owned industrial enterprises and agricultural cooperatives that promoted agro-business industrial activities and controlled agricultural marketing, thereby preventing middlemen from marketing the products of state farms (Hinnebusch, 1989: 41). Furthermore, it dealt with Syria's arid environment by developing animal husbandry and improving land irrigation and reclamation. The aim of agricultural development during this state-interventionist phase was to ensure self-sufficiency in food staples and agricultural products. This sufficiency would maintain the state's control of agricultural output and eschew any return to the post-independence *ancien régime* and its associated dependent development.

However, the radical agrarian policies did not remain in force after the Hafiz Assad regime promulgated counter-agrarian reforms. These reforms allowed the private sector to take part in agriculture procurement in the form of mixed-sector ventures. Joint ventures with local and foreign contractors or companies were established following the enactment of Law No. 10 of 1986 (Hopfinger and Boeckler, 1996; Polling, 1994). The latter law also allowed the initiation of mixed-sector stock corporations in agriculture and the operation of capitalist farms and complementary agribusiness. However, the mixed-sector agribusiness proved to have limited success (Hopfinger, 1990; Hopfinger and Boeckler, 1996: 187). These agri-corporations did not increase agricultural production, nor did they set new standards of production through the use of modern agricultural techniques.[5]

Counter-reforms did not stop there. Hafiz Assad initiated austerity measures on the agricultural sector starting in the 1980s (Khoury, 1999: 270; Kanaan, 2000: 115). Government expenditure was curtailed, including spending on modern equipment and farming machinery. Moreover, subsidies to the agricultural sector – on fertilisers and

pesticides – were drastically decreased (Hopfinger and Boeckler, 1996: 186–7). The formerly high government spending on agriculture development during the 1960s dropped to 10 per cent of total realised investment in the 1970s and remained slightly above 10 per cent in 1980–85 (Perthes, 1995: 43). Agrarian counter-reforms also continued during the Bashar Assad regime. In 2000, Decision 83 was promulgated, which allowed the privatisation of state farms in the north that were eventually sold to the 'public,' but the main beneficiaries were the state bourgeoisie, the traditional landowners (especially those with ties to the regime), and Gulf investors (Ababsa, 2006).

Figure 1.1 shows that the share of agricultural and forestry expenditure out of total GFCF averaged 20 per cent during 1970–74. This average share then dropped sharply to 6 per cent in the late 1970s and was at 7 per cent during 1980–84, reflecting the Assad regime's austerity measures on the agriculture sector. Although fewer resources were allocated to agriculture out of total government investment, the decline in the sector was not significant so far as its contribution to GDP was concerned. Agriculture's contribution to output remained almost steady – contributing not less than 20 per cent over the prior four decades until the drought in 2006. This steadiness in agricultural production was, in part, maintained by high labour participation in the agricultural sector – fuelled by the informal sector and women's participation. Although farmers migrated from rural to urban areas following economic liberalisation, their migra-

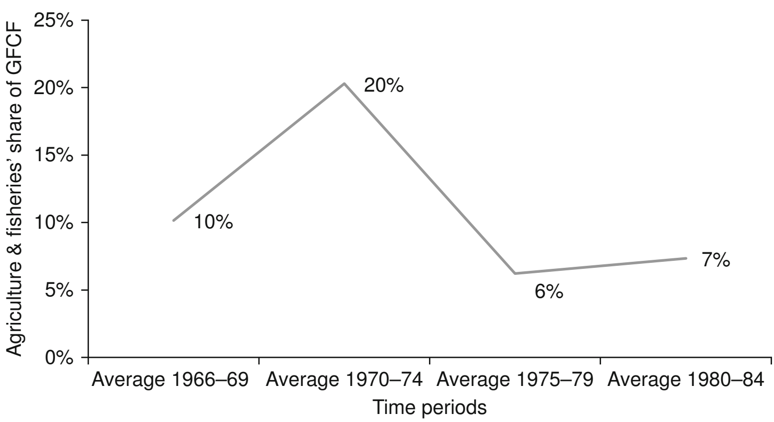

Figure 1.1 Agriculture, forestry and fisheries' average share of total GFCF during different time periods

Source: Central Bureau of Statistics, *Syrian Statistical Abstract*, different issues.

tion remained seasonal; more important, their ties to their rural origins were never loosened, given that market jobs were not secure.[6]

4 Syria's rent-based economic growth during 1990–2010

According to Table 1.1, the mining and manufacturing sector accounted for the lion's share of total output during the 1990s and the early 2000s, which jumped from 17 per cent of GDP in 1985 to 26 per cent in 1990, due to major oil extraction. Mining and manufacturing registered no less than 20 per cent of GDP during 1990–2010. Since the Syrian statistics do not distinguish between mining and manufacturing, it is hard to tell exactly how much manufacturing alone contributed to total GDP. According to Syria's State Planning Commission, mining accounted for approximately 70 per cent of total mining and manufacturing output, implying that oil dominates in national account bookkeeping (State Planning Commission interview, 2007). The United Nations' figures show that manufacturing output did not exceed 5 per cent of total value-added in the later 2000s (UNIDO, 2014). As a percentage of GDP, manufacturing production constituted 4.4 per cent in 2011 – mainly concentrated in textiles, knitwear, processed food, chemicals, and pharmaceutical products (AMF, *Joint Arab Economic Report*, 2011).

The economy was therefore relatively underdeveloped. It was also characterised as rent-based, because it was a comparatively minor oil-producing and -exporting economy. Nonetheless it relied on oil revenues and on geopolitical rents, including income remittances sent by Syrian workers abroad. As a result, Syria's economic foundation remained weak and vulnerable to external disturbances. GDP at constant prices witnessed an average growth rate of 8 per cent during 1994–96 (Central Bureau of Statistics, 2010 and other issues), mainly due to the production of light oil, the increased oil revenues and the overall political stability that prevailed in the Arab Near East following the Madrid Conference. One should also take into account the post-Cold War funds that flowed into Syria and the promulgation of investment reform in the early 1990s that revitalised private investment.

New fields of light oil were discovered starting in the mid-1980s, although the origin of oil extraction in Syria dates back to the 1970s. At that time, heavy oil exploration and extraction were conducted with the help of foreign companies on the basis of production and share. In 1984, the US-based Pecten Company discovered major oil fields, after which commercial production started. In the mid-1980s, Shell (along with other US-European companies) also extracted light oil in Palmyra, Deir

Ezzor, and Euphrates. In 1986, oil production was 60,000 barrels per day (bpd). It gradually increased to 200,000 in 1989 and to 300,000 in 1991 (Hawwa, 1993: 93). As production of light oil increased during the 1990s, Syria's export revenues were boosted.[7] It was estimated that an average of 380,000 bpd were extracted during the 1990s, and that as a result, oil export revenues reached USD2 billion in the mid-1990s (Kanovsky, 1997 and Joint Arab Economic Report, 2002).[8] In the early 1990s, oil export revenues accounted for 60 per cent of total export revenues and 50 per cent of government revenues (Kanovsky, 1997: 3 and Perthes 2004a: 99).

The years 1997–99, however, were termed by the State Planning Commission the 'lost years.' Average economic growth dropped to 1 per cent (Central Bureau of Statistics, 2010 and other issues), because Syria witnessed a reduction in geopolitical rents and remittances following a fall in international oil prices. The decline in the economic growth rate to –4 per cent in 1999 (see Figure 1.2) was mainly a reflection of the oil price dropping from USD20 per barrel to USD9.5 per barrel in 1998 (Barout, 2011: 14). Moreover, real per capita income experienced an average growth rate of –1.2 per cent during 1997–99 (Central Bureau of Statistics, 2010 and other issues). A Malthusian-style argument that blames low per capita growth rates on the burden of a growing population is unlikely to apply in Syria's case.[9] In a developing country, economic analysis should be driven simultaneously by demand and supply conditions, because achieving growth favouring the poor that

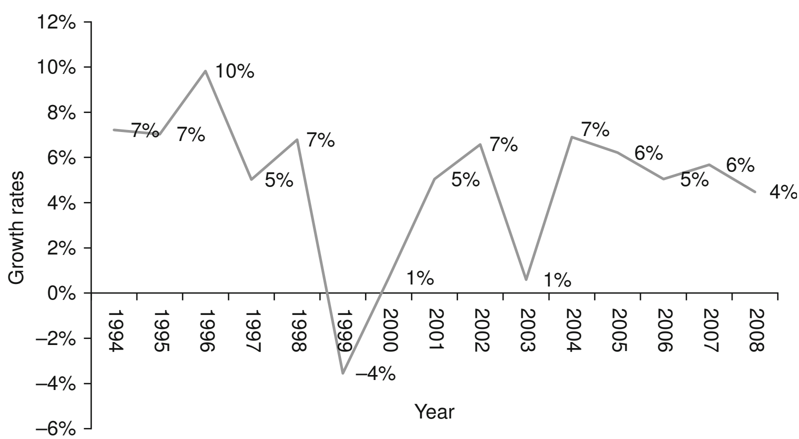

Figure 1.2 GDP growth rates at constant 2000 prices for 1994–2008
Source: Central Bureau of Statistics, *Syrian Statistical Abstract*, 2010 & other issues.

can absorb the excess labour force and improve the overall standard of living is crucial. As will be discussed in Chapter 3, the problem in developing countries is the deficiency in productive capacity.

It follows that, even if all available resources are fully utilised, the available labour force in a developing country like Syria cannot be absorbed because of lack of capital equipment required to enhance the economy's resources. Economic policies that direct resources toward building productive capacity via infrastructure, manufacturing, and industrial plants might lead to an employment-generating economic growth that could absorb the labour force in the market. Nevertheless, as pointed out by the State Planning Commission, state policies were exclusive. The government did not implement the policy recommendations of the five-year economic plans that proposed strategies for improving the public sector and enhancing the economy's productive capacity. In general, state policies promulgated during the 1990s and 2000s did not correspond to the policy recommendations set by the State Planning Commission's developmental plans (State Planning Commission interview, 2007).

The period 2002–08 was the time of the second oil boom, as international oil prices increased from USD24 per barrel in 2000, to USD28.1 in 2002 and then up to USD36 per barrel, following the US invasion of Iraq in 2003 (Barout, 2011: 17). During 2005–08, Syria experienced an average economic growth rate of 5 per cent (see Figure 1.2), mostly attributed to the production and export of high-quality oil.

The decline of economic growth rate to 1 per cent in 2003 was due to the Iraq War and its negative effects on the Syrian economy, especially the demise of transit oil to Syria after the closing of the Iraqi–Syrian oil pipeline (see Figure 1.2). It was estimated that the collapse of the Saddam regime cost Syria USD2 billion, of which half were revenues from the oil pipeline (Spindle, 2005).[10] The high growth rates witnessed during 2005–08 were attributed to the second oil boom. However, this rent-based economic growth was neither developmental nor egalitarian. Following investment liberalisation, economic resources were targeted to the tertiary sector, basically to short-term activities in transport that could not increase job opportunities for the workforce. High unemployment and poverty figures in the years prior to the uprising were attributed to long-term cyclical contraction in the non-oil economy that dates back to the 1980s. In actuality, however, the economy never emerged from the crisis of the mid-1980s. The Hafiz and Bashar Assad regimes adopted policies that diverted more and more resources to the non-productive sectors. Basic infrastructure was not rehabilitated and

productive capacity was not enhanced. The economy relied basically on oil rents, and the agencies backed away from modernising some of the deteriorating state-owned plants (Hawwa, 1993). Different sources reported varying rates for unemployment: the Central Bank stated that 10.9 per cent of the workforce was unemployed in 2008, while Syrian economists estimated the rate to be 16.5 per cent in 2009 (Barout, 2011). Youth unemployment hovered at 25 per cent during the 2000s (interview with Al-Zaim, 2007). Available figures reported a poverty rate of 30.1 per cent in 2003–04 (UNDP, 2005 and Central Bureau of Statistics, 2004).

5 Impact of oil revenues on macroeconomic development

Between 1994 and 2000, Syria produced an average of 565,000 bpd (OPEC, various issues). Production level reached a peak of 600,000 bpd in 1994, after which it trended downward. The oil boom in Syria was short-lived; levels of oil production were already in decline during 2001–09 (see Figure 1.3). In the early 1990s, oil export revenue was the main source of government revenues. However, the economy saw a decline in average oil production due to technological problems and depleted reserves. The State Planning Commission pointed out that Syria had, at that time, been exporting heavy fuel and importing oil by-products, including refined fuel (State Planning Commission interview, 2007).

According to the Ministry of Economy and Trade, oil export revenues constituted 45 per cent of total export revenues in 2005 (Ministry of

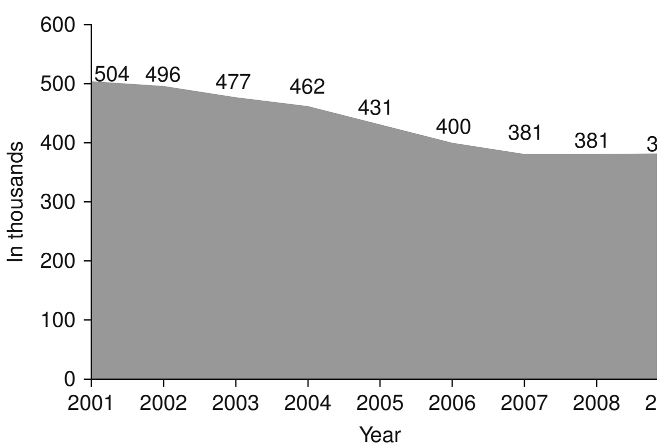

Figure 1.3 Crude oil production in thousands of barrels per day, 2001–09

Source: Bank Audi's Research Department, *Syria Economic Report*, March 2010.

Economy and Trade, 2005). In absolute figures, total oil export revenues for Syria amounted to 2.9 billion dollars in 2004, which dropped by 14 per cent to 2.5 billion dollars in 2005, then by 52 per cent in 2006, and down a further 25 per cent to 0.9 billion dollars in 2007 (see Figure 1.4). This has led to major losses in government revenues. In 2001, oil-related products constituted 58 per cent of government revenues. They declined to 48 per cent in 2003, to 30 per cent in 2005, and then to 22 per cent in 2007 (Central Bank, *Quarterly Bulletin*, 2006 and 2008). As a percentage of GDP, oil-related revenues in the fiscal accounts likewise decreased. They dropped from 15.1 per cent of GDP in 2003 to 7.5 per cent in 2006, and then down to 4.9 per cent in 2007 (see Figure 1.5).[11]

Although the government has never disclosed any information regarding its crude oil reserves, interviews with state officials revealed

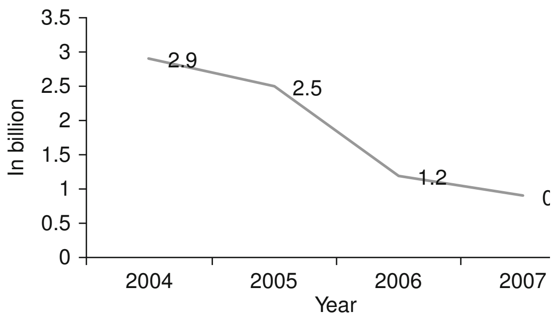

Figure 1.4 Crude oil export revenues in billions of USD, 2004–07
Source: Arab Monetary Fund, *Joint Arab Economic Report*, 2009 and 2010.

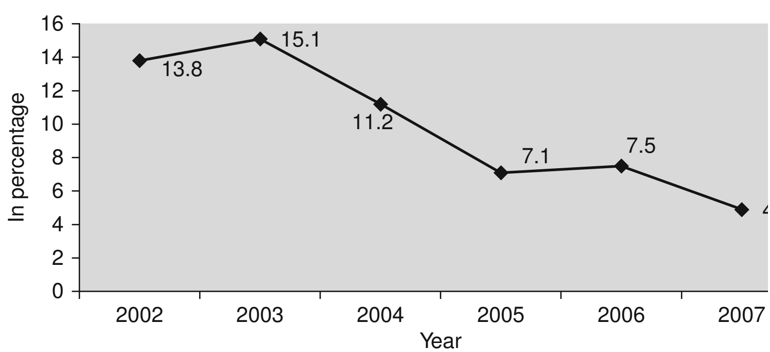

Figure 1.5 Oil-related revenues in the fiscal accounts as a percentage of GDP, 2002–07
Source: The Central Bank of Syria, *Quarterly Bulletin*, 2008.

that reserves were on the decline. BP estimated that, at the end of 2011, the reserves stood at 2,500 million barrels (BP, 2012).[12] As a result, Syria needed to boost its non-oil production and non-oil exports, particularly by expanding its industrial production, and more generally to diversify and expand its economic production and export base in order to generate new sources of government revenue.

The traditional manufacturing sector in Syria has been on the wane since the mid-1980s. The question arises: Did the booming oil sector in the 1990s have a negative impact on Syria's manufacturing sector and macroeconomic stability? Put another way: Did the economy's reliance on exporting the primary commodity lead to deindustrialisation and to a decline in activity in the manufacturing or non-oil–tradable sectors? This analysis hinges on the 'Dutch disease' hypothesis, which is related to the 'resource curse' literature.[13]

Since the 1980s, there has been a plethora of literature on the 'resource curse' that basically postulates that an abundant amount of natural resources can be a curse rather than a blessing for a developing country because of adverse economic outcomes (Bannon and Collier, 2003; Davis et al., 2003; Sachs and Warner, 1995; Wheeler, 1984). One of the most well-known phenomena of the 'resource curse' is the so-called 'Dutch disease.' Briefly, in the paradigm, the 'Dutch disease' is defined as an increase in the export of an abundant natural resource that causes an appreciation in the nominal exchange rate and leads to higher inflation, which is caused by increased domestic spending that follows the increased capital inflow. This process can trigger a real exchange-rate appreciation and put pressure on the manufacturing and other tradable sectors of the economy, which will lose their competitiveness in international markets (Bruno and Sachs, 1982; Corden and Neary, 1982).

However, evidence for this paradigm is not conclusive (McKinley, 2008: 2; Rosser, 2006: 8; United Nations, 2006–07: 50). Despite the prevalence of oil-exporting countries in the developing world afflicted with the symptoms of 'Dutch disease,' other oil-exporting countries have achieved export diversification and broad industrialisation (United Nations, 2006–07: 51).[14] They demonstrate that, when and if, symptoms of 'Dutch disease' do occur, the problem can always be addressed and reversed by appropriate state policies that offer cohesive support to industrial and to other tradable sectors, thereby transforming the resource abundance from a 'curse' to a 'blessing.' More importantly, the literature on the 'resource curse' does not take into account the social and political variables that act as mediating forces in shaping the development outcome in resource-abundant countries (Rosser, 2006: 21–2).

This sociopolitical context should be examined in order to fully understand why a resource-abundant country performs poorly in developmental terms (Rosser, 2006: 21). One therefore needs to discern which macroeconomic strategies – shaped by political and social factors – have helped in promoting growth and development in some resource-abundant countries, while preventing others from doing so (Schrank, 2004; Snyder and Bhavnani, 2005). This approach will enable an analysis of useful policy recommendations for addressing the 'resource curse' (Rosser, 2006: 8). The challenge for policy-makers in these countries is to design macroeconomic policies that can push for an internally-induced industrialisation and the diversification of production into non-oil tradable goods.

In the case of Syria, if the presence of oil had tended to overvalue the exchange rate, raise the wage rate – to build domestic political support – and to undermine the production of both agricultural and industrial tradable sectors, it would have had a Gulf-states version of 'Dutch disease' (Owen, 2008). But none of these outcomes actually materialised in Syria. Wages and exchange rate over the last two decades were almost steady, and the pressure on the latter was anything but upward. The low share of oil in the economy by comparison with Syria's Arab neighbours never created balance-of-payment surpluses big enough for the exchange rate to experience upward pressure. In any case, the oil sector in Syria was shrinking during the 2000s.[15]

On the flip side of the exchange-rate story, although some prices rose in response to the rising prices of imports, the escalation in the prices of domestic consumable commodities in the last four years, especially those of basic commodities, was predominantly due to government policies of price liberalisation and the relinquishing of price controls. This opened the door wide for merchants to mark up prices and to squeeze supply. That is to say, the increase in Syria's inflation rate prior to the uprising was not due to the 'Dutch disease' inflow of foreign exchange, but due to the 'created shortages' in the supply of goods that followed the free-market measures of the liberalisation. This point will be further elaborated in Chapter 6.

The macroeconomic policies deployed in the early 1980s did not prioritize the promotion of manufacturing. More generally, these policies did not channel resources and geopolitical rents towards the productive sectors but rather towards the tertiary ones. Although the Syrian government received a significant amount of revenues from exporting a high-priced primary commodity during the early 1990s, these resources were not used to finance developmental projects. State resources, including oil

revenues, were used to promote political patronage in order to consolidate the social base of the Assad regime, and to expand the military build-up to serve the regime's *raison d'être*. These points will be further elaborated in Chapter 5.

On another front, the USSR in the 1980s offered a vast market for the artisanal and low-quality standard of Syrian industrial products. The Syrian industrialists made good business out of the Syrian Friendship Pact with the Soviet Union[16] and set up several factories for the purpose of exporting to the Soviet market. Similar agreements, but on a smaller scale, were conducted with Iran and other East European countries. The Syrian industrialists lined up for Soviet and other East European orders. According to local experts, these agreements partly contributed to the delay in modernising and enhancing Syria's machinery and productive resources (Reddawi, 2001).

6 An overview of the trend in gross fixed capital formation rate and its decomposition since the 1960s[17]

The investment rate, measured as GFCF as a percentage of GDP, generally increased during the 1960s and 1970s, peaking at 38.1 per cent in 1977 (as shown in Figure 1.6). This increasing trend was influenced by increased industrial investment. Between 1961 and 1965, annual industrial investment in absolute value averaged approximately S£ 113 million. It rose to approximately S£ 181 million in 1966–67, then to S£ 252 million in 1968–69 (Kanovsky, 1977: 47).

Not only did public investment contribute to the bulk of total GFCF (more than 60 per cent) each year during 1975–79, but a decomposition of GFCF for these years shows that mining and manufacturing constituted the highest share of GFCF, absorbing 45 per cent of GFCF for the period 1974–79 (Central Bureau of Statistics, 1987). This period was affected by the Import-Substitution Industrialisation (ISI) programme installed by the Ba'athist regime that took serious measures toward building the industrial nucleus. The Ba'athist regime aimed to mitigate foreign political and economic influence and achieve economic independence by enhancing the economy's productive capacity. External aid and geopolitical rents, which were prominent in the mid-1970s, were channelled to finance productive investment. Some examples are a modern fertiliser factory in Homs and a cotton mill and a steel rolling plant at Hamah (Lawson, 1989: 21). Light industrial projects included textile weaving, food processing, glass and pottery making, whereas heavy manufacturing activities were characterised by electric generation

and the production of cement, refrigerators, electric equipment, and other machinery (Central Bureau of Statistics, 2003). These projects reflected the marked increase in the industrial activity during the 1960s and 1970s.

Industrial output grew at an average rate of 11.6 per cent per annum during 1970–78. This is compared to only 5.6 per cent during 1960–70 (Chatelus and Schemeil, 1984: 254). Ten cement projects, one paper factory, one tyre factory, four sugar factories, a new petroleum refinery at Banias and a triple phosphate factory were constructed in the mid-1970s (Hawwa, 1993: 87). Although these projects were non-coordinated and costly, they nevertheless fit the industrial policy at that time that meant to boost import-substituting investment and enhance the economy's industrial core. As already noted, local production not only satisfied local demand but a portion of it also penetrated the former USSR and the East European markets, due to the political relations that Syria had with these countries. But because the ISI programme in Syria started to be prematurely reversed starting in the early 1980s, Syria could not sustain the competition from abroad. Syria lacked the scale industries with which it could have acquired an export platform.

During the 1980s, the investment rate in Syria trended down, falling off sharply to 15 per cent in 1988 as a result of the drop in geopolitical rents following the fall in international oil prices (see Figure 1.6).

Figure 1.6 Gross fixed capital formation as a percentage of GDP, 1965–2007
Source: World Bank, World Development Indicators, 2014.

The rate drop was also accelerated by fiscal and monetary austerity measures. No major industrial project was undertaken during the 1980s, and industrial investment remained limited to the completion of unfinished projects and the replacement and repair of equipment (Perthes, 1995: 46).

After investment liberalisation Law No. 10 was introduced in 1991, the investment rate increased in the first half of the 1990s, because consumption items (notably imported cars) were recorded as investment goods in the accounting books.[18] The investment rate averaged 23 per cent during 1991–95 before dropping off to 20 per cent during the 'lost years' of the late 1990s. Average investment rate during 2000–07 was not better than the preceding periods, settling at 21 per cent (Central Bureau of Statistics, 2011). This data shows that private investment, revitalised by the investment reform, did not boost the overall investment rate in the 1990s and 2000s, as the average rate remained low and could not reach the peak achieved in 1977 (refer to Figure 1.6). When public investment receded following market liberalisation, private investment could not push overall investment to rates higher than those that were achieved by public investment during the late-1970s.

Figure 1.7 plots private and public investment as percentages of GDP since the 1960s. It shows that as percentage of GDP, public investment exceeded private investment during the 1960s and 1970s. The public investment rate increased and peaked at 22 per cent in the mid-1980s. Starting 1990, private investment regained momentum, especially after Law No. 10 was enacted. Private investment as percentage of GDP exceeded the public investment rate in the early 1990s (1991–96), whereby the average private investment rate was 13 per cent and that of public investment was 9 per cent. Private-sector activities were concentrated on textiles, agriculture-food, chemicals, and pharmaceuticals. State-led investment regained some momentum in the years between 1997 and 2005, as its rate averaged 12 per cent as compared to an average of 8 per cent for the rate of private-sector-led investment (Central Bureau of Statistics, 2011).

Soon after Legislative decree No. 8 – which is covered in more detail in Chapter 6 – was introduced in 2007 to replace investment Law No. 10 and to deepen market liberalisation, private investment managed once again to surpass public investment (see Figure 1.7). The average rate of private investment was 12 per cent in the years 2007–10 while the average for public investment was 10 per cent (Central Bureau of Statistics, 2011).

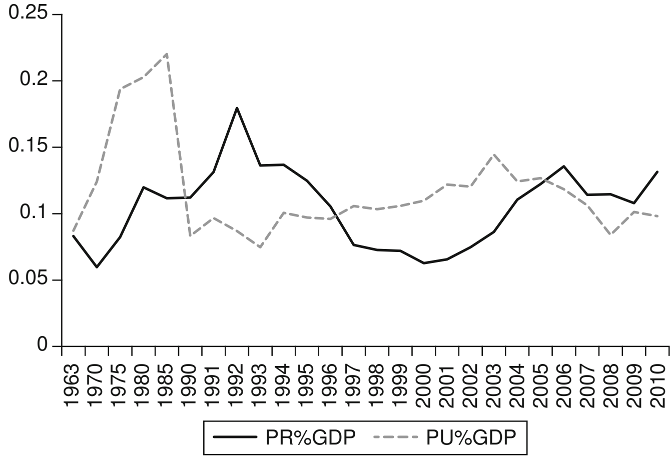

Figure 1.7 Trend in private and public investment as a percentage of GDP, 1963–2010

Source: Central Bureau of Statistics, Syrian *Statistical Abstract*, various issues.

As explained earlier, the Syrian economy had become more dependent on rents. The authorities failed to channel economic resources into the productive sectors. Manufacturing output did not exceed 10 per cent of total value-added in the 1990s and 2000s (UNIDO, 2014) and remained concentrated in light finishing industries that produced consumer goods to meet the changing consumption habits of society (Abdel-Nour, 2000). While this share (manufacturing out of total value-added) stood at 19 per cent in 1970, it dropped to 8 per cent in 1985 and to 6 per cent in 1990 and 1995, then further to 2 per cent in 2000 (UNIDO, 2014), indicating that the bulk of value-added production was concentrated in non-manufacturing and low capital-output ratio types of investment (manufacturing is the modern industry that possesses a scale-enhanced characteristic).[19] This further signifies that private-sector-led investment following market liberalisation by Hafiz Assad did not boost manufacturing production as had the ISI programme enacted by the Ba'athist regime during the 1960s and 1970s. In contrast with the internally induced public investment that concentrated on building the economy's productive capacity during Syria's state-interventionist experience in the 1960s and 1970s, investment activity shifted towards commercial types of investment (interview with State Planning Commission and Chamber of Industry, 2007).

In my research, I have come across flagrant data distortions. In one incident, the Syrian State Planning Commission (SPC) criticised the Syrian

Central Bureau of Statistics for publishing data on the average growth rate of GDP by economic sector at constant 2000 prices, in which they show that manufacturing output increased by an average rate of nearly 20 per cent in the early 1990s and then dropped by 25 per cent during 1997–2003. Obviously such high fluctuation (a band of 45 per cent in total) is implausible. The SPC criticized the Bureau of Statistics for using 2000 as base year – a year characterised by high oil prices – culminating in imprecise data computations. The SPC responded by computing the average growth rates of GDP according to economic sectors at constant 1995 prices (State Planning Commission, 2005: 22, table 1–2). Nearly all economic sectors witnessed higher average growth rates in 1997–2003 as compared to 1990–96, except for processed manufacturing, building, and trade. This data underscores the deterioration in industrial production in the late 1990s. One ought to note, however, that UNIDO estimates of manufacturing capacity in Syria are more reliable.

While industrial output fell, consumption expenditure rose. The resources that might have been directed into industrial expenditure were instead diverted into consumption, especially the luxury consumption of the rich, including the private consumption of highly paid military officers (Hinnebusch, 1995: 311). Luxury items were imported and consumption was geared towards Western styles and standards (Perthes, 1992b: 38 and Hadidi, 2010a). While the average annual growth rate of household consumption was recorded as 3 per cent during 1975–85, it registered a 5 per cent growth rate during the consecutive periods of 1986–96 and 1997–2007 (World Bank, 2010). Recent figures for household consumption as a percentage of disposable income rose from 66.6 per cent in 1995 to 72.7 per cent in 1996, further up to 75.5 per cent in 1999 (Central Bureau of Statistics, 2004).

Moreover, despite the increase in oil revenues in the early 1990s, the increase in imports surpassed that of exports during that period, pushing the trade account into deficit. This trade-account deficit registered about USD1 billion annually for the years 1990–93 (World Bank, 2010). The opening up of the trade sector increased the import of cars, sport utility vehicles and other durable items, which were used for consumption. That said, the conspicuous consumption of the upper 5 per cent, who were estimated to own and control about 50 per cent of national income, increased and became more visible in the market (Perthes 2004b: 31). Previously, the ruling elites and the upper middle class had gone abroad to purchase luxury items – for example, to neighbouring Beirut. Following liberalisation, they consumed internally in the fancy new shops and cafes that opened up.

Meanwhile, the stability in agriculture's share of output, at least up until the drought in 2006 – as mentioned in Section 3 – had partially offset the welfare deterioration driven by the fall in industrial production. Conditions might have been worse had both sectors experienced joint declines, but the continued steadiness of a strong agricultural sector cushioned the welfare fallout that resulted from overreliance on erratic rents.

7 A critical examination of the theoretical investment approaches within the context of state-controlled developing economies

This book critically reviews the neoclassical and the demand-led approach to investment and argues their inapplicability to the Syrian case. The neoclassical approach presents a static mathematical representation of the determinants of investment in fixed capital assets that is constrained by unreal assumptions, one of which is that expectations of profits are considered to be either certain or at least foreseen or computable. Obviously, in the turbulent conditions of Syria, not much is relatively stable enough to be foreseen. The neoclassical approach considers an adjustment approach to investment analysis. It rightly focuses on profit maximisation, the primary determinant of investment decision. However, it meaninglessly assumes that investment moves a certain stock of capital from disequilibrium to the 'equilibrium level' or the 'optimal stock of capital.' More particularly, it considers the cost of capital or supply-side variables as the main determinants of investment, largely overlooking the broader macroeconomic variables, such as the changes in aggregate demand or level of output and its associated change in profit rates. In this regard, this approach shifts the analysis of investment determinants 'from centre to side-stage, if not into the wings' and is subjected to criticism by many economists who adopt the demand-determined system as means for economic analysis (Sawyer, 1985: 44). As such, this approach hardly corresponds to the conditions in the developed world, but is most unfitting to a developing economy, such as Syria.

Another limitation to the neoclassical method is that it considers capital to be homogeneous and justifies the use of the surrogate – homogenous – production function (Samuelson, 1962). This incited a lively debate on capital theory in the 1960s, the Cambridge Capital Controversy, which challenged the assumption of the homogeneity of capital by presenting the measurement problem and concluding that

capital is not homogeneous but is an ensemble of heterogeneously produced goods (Sraffa, 1960).

The demand-determined viewpoint combines a positive macro relationship of growth and investment with a behavioural component to investment decision in fixed capital assets, because private entrepreneurs are mainly influenced by their 'animal spirits' (Robinson, 1964). From a macroeconomic perspective, investment decision is influenced by the change in the level of national income and its associated change in the profit rate. The expected future rate of profit is the principal driver of investment. When expectations for profits are high, investment will take place and the economy will be thrown into an unsustainable boom, after which the profits expected by investors cannot be realised. This will consequently dampen the expectations for profits and investment will simultaneously slow down, pulling the economy into a slump.

It follows that private investment is highly influenced by expectations – that is, by what are known as adaptive expectations: expectations determined by present and past events. Because expectations hold primacy in the determination of investment, private investment becomes volatile and does not settle into a 'state of equilibrium' (Kalecki, 1990; Keynes, 1937; Robinson, 1980 [1964]). There are also times when expectations can transmute into uncertainty or immeasurable risks, such as a war or an unanticipated social unrest or political uprising, which is undoubtedly the Syrian context. When the risk factor is high, adaptive expectations become intractable and as such they are inapplicable to the Syrian case. In this regard, Keynes (2008 [1936]) argues for 'socialisation of investment.' He recommends that the state promotes state-led investment to act as a counterweight to fluctuations in private investment and guarantee an adequate level of effective demand that in turn can secure the continuity of the capitalist system. But, the type of socialisation that Keynes desired, which is demand-management with private sector leadership, is not possible in a state whose productive capacity is wanting and whose private sector is not committed to the national interest.

This book argues that these ahistorical theoretical approaches that study investment are inadequate for examining the trajectory of investment in developing countries like Syria. Investment in state-controlled developing economies obviously does not occur in an explicitly free-market context. The market forces that set prices and shape future expectations do not take account of changes in investment strategies in these economies. More important, developing countries are much more concerned with deficiency of modern capital resources: that is, they need to build their productive capacities (Kalecki, 1976; Nurkse, 1964).

In this case, promoting investment in fixed capital assets becomes more challenging, because the issue lies at the very centre of the development debate in the Third World – that is practically a building capacity debate. Developing countries' problematic is not about macro expansion when at full employment – the fairy tale of mainstream macroeconomics – causing inflationary pressures and backfiring in terms of real demand. Developing countries lack the capacity in which resources could be fully utilised. So, investment in a developing country therefore differs because the state needs to use money expansion to mobilise idle resources, labour, and natural resources, infuse new technology into the production process and create capacity. The state, which is the biggest holder of capital, plays a crucial role by guaranteeing the building of productive capacity, circumventing fluctuations in private investment and the business cycle.

In Syria, the state had governed market performance. Inter-firm exchange and trading were undertaken by a pre-set system of prices; monetary and fiscal policies ran commensurably with one another; and money was rationed and directed by the state and the public sector until liberalisation broke this equilibrium. The interest rate was state-determined and remained fixed for almost 20 years (interview with Al-Zaim, 2007). The market price was not formed by the standard supply-and-demand conditions; nor did it signal how investment demand or any other demand should proceed in the future. Investment in Syria was therefore not related to market-determined changes in interest rate or other prices, but continued to be under the thumb of the state, always until the beginning of liberalisation. Lending to private and public investors by private financiers was negligible or nonexistent; credit was only extended by state banks according to a predetermined credit allocation plan. Because Syria needed to build up its weak productive capacity, it was the state, especially under Ba'athist rule, that determined state-led investment, grew the public sector, and increased credit that financed private and public investment. The process of capital accumulation in Syria therefore remained state-determined for decades.

Against this backdrop, it becomes feasible to study the politically empowered social force that acted behind the state-controlled economy and that was responsible for the amount and types of investment during Syria's successive historical phases. The book situates the analysis of investment within a historical context to analyse the factors that determined long-term or productive types of investment during the Ba'athist regime on the one hand, and the short-term and parasitic types during the Assad regime, on the other. More particularly, the book employs a

class-based political-economy approach to identify the social force or agent of investment that pushed for one type of investment and against another. Several factors compelled this agent to endorse certain types of investment; decisions were shaped by the sociopolitical conditions that prevailed during a specific historical period.

This book therefore looks into investment performance beyond static mathematical functions or the fluctuating nature of investment, which, in turn, translates into either growth or economic downturn – the business cycle. In contrast to the ahistorical micro or macro approach, the book analyses investment from a political-economy viewpoint that understands investment as inextricably intertwined with social forces, thereby identifying the social class or human agent that controlled the means of production and had determinative bearing on investment decisions during a specific historical period. By integrating social, political, historical and economic factors, it offers a fuller and more comprehensive framework for analysing investment in Syria.

8 Structure of the book

The book has five core chapters. Chapter 2 provides the theoretical background for the study of investment determinants. The study of investment from the neoclassical perspective, which springs from a price-determined system, is confined within certain limits and assumptions set by the conventional ahistorical approach. This conventional approach has been subject to major criticism in the literature, which is tackled in more details in the chapter. The demand-led approach to investment, however, springs from a demand-determined system. In this approach, investors are primarily driven by their 'animal spirits,' which pushes them to invest for the sole reason of expected future profit-making. Investment herein is conceived as an optimal behaviour rather than an optimal adjustment to an 'optimum level.' Within this context, a synthesis of the Kaleckian and Keynesian approaches to investment analysis is presented. Unlike the conventional neoclassical approach, these approaches do not adhere to the standard equilibrium position. On the contrary, Kalecki views investment as the driving component of aggregate demand and the valve of an economic business cycle. The chapter addresses the limitations of the neoclassical and the demand-led theoretical approaches in handling investment analysis in Syria.

Chapter 3 approaches investment analysis from the experience of the developing world. It summarises how developing states promoted state-led investment in the 1950s and 1960s. The developmental state,

structuralist, and state-capitalist paradigms are presented. There were few postcolonial countries that were described as state capitalist after independence, because not only did they witness heavy-handed state intervention – étatism – but more so far-reaching nationalisation and progressive agrarian reforms. More importantly, the process of capital accumulation was totally managed by the state, meaning that private sector activities were supplanted. The chapter argues how the state capitalist paradigm can be applied to Syria during Ba'athist rule in the 1960s.'

By employing a class-based analysis, Chapter 4 explores, at length, the area of state capitalism and agency of investment in Syria that are incidentally scarcely reviewed in the literature. The class-based inquiry is crucial to exploring Syria's move to the state-interventionist or state-capitalist structure during the 1960s and later to the market economy during the Hafiz and Bashar Assad regimes. The chapter explores how radical factions of the army, composed of Ba'athist military officers, suppressed class conflict and laid the foundation of the state-capitalist structure. The Ba'athist officers secured their hold on the state apparatus and did not 'retreat to the barracks.' They instead transmuted themselves into a bureaucratic state-capitalist or state bourgeois class. The state-capitalist class controlled the means of production and promoted import-substitution investment in order to mitigate foreign influence and situate Syria on an internally-induced path to economic development. However, this did not last for long. The chapter discusses how economic, social and political policies changed profoundly after Hafiz Assad seized power. Hafiz not only side-lined the Ba'athist radical and secularist military officers, but also changed the ideological discourse of the Ba'ath party from revolutionary rhetoric and nationalism to a 'disciplining logic' which stressed on the need for economic production and progress (Sottimano, 2008).

Chapter 5 examines Syria's piecemeal economic liberalisation or *infitah* starting in the 1970s. The Hafiz regime (1970–2000) introduced its own 'home-based' set of market-friendly economic reforms with little, if any, advice or intervention from the international financial institutions (IFIs). All along, economic liberalisation was conducted in a selective and carefully tailored way according to the ruling elite's political calculations. Economic considerations, in short, were always subordinated to political rationality in Syria. After the fall of the 'Soviet project,' the Syrian state bourgeoisie pushed for market-friendly reforms according to the dictates of neoliberalism. Chapter 5 also tackles Investment Law No. 10 of 1991, a salient reform measure that paved the way for Syria's transformation from state capitalism to private capitalism.

Chapter 6 examines the wide-ranging neoliberal reforms that were introduced under the Bashar regime during 2000–10. Data and information compiled from the author's research trips to Syria are presented in the chapter to highlight the economic sectors to which private-sector–led investment went to. The chapter also presents statistics pertaining to licensed and executed investment projects under Law No. 10 of 1991. More importantly, interviews conducted by the author with Syrian experts and state officials are crucial for understanding the investment climate and the reasons behind amending the investment law during the Assad regimes. They also reveal the real macroeconomic story in Syria – rising inflation, dampening purchasing power, and deepening antagonism between industrialists and merchants. The chapter argues that, although Syria's transformation into market-oriented economic structure enabled the state bourgeoisie to transmute from state-capitalist to private capitalist, it generated anti-developmental outcomes. In this regard, the chapter also addresses the economic, social and environmental underpinnings of the social unrest that erupted in 2011.

Apart from summarising the main arguments presented in the chapters, Chapter 7 explains how the crisis of capital accumulation is manifested in Syria. It also critiques the economic plan for post-conflict Syria that is designed by the Syrian opposition in exile and argues that if Syria were to get out of its crisis, it must draw lessons from its historical phases of development and de-development and its leading social forces must learn how not to veer the social and economic structure away from a sound developmental path.

2
Review of the Theoretical Framework on Investment Decisions

> The determination of investment decisions by, broadly speaking, the level and the rate of change of economic activity ... remains the central *pièce de résistance* of economics. (Kalecki, 1968: 263)

The book is about investment in Syria. Investment, however, is as broad a topic in theory as can be. This chapter is a detailed critical account of how modern investment theories fail to fit the Syrian mould. The purpose is to clear the theoretical grounds to make the case for the specificity of the Least Developing Countries (LDCs) in general and Syria in particular. In doing so, I present two salient approaches to the study of investment: the mainstream neoclassical approach and the demand-led approach. The first viewpoint I find it to be wholly inapplicable for the Syrian case. The second perspective or, the demand-management approach, remains ahistorical and is unable to offer a complete picture for analysing investment in Syria. Syria is a developing country that lacks productive capacity and has a small market or labour share, which can only partly drive output via demand stimulation. The question that explains the decision to invest in a given socioeconomic context is theoretically rudimentary. Generally, the basis for any investment decision is the *expected* rate of profit. From the neoclassical perspective, investment in fixed capital is considered to move a certain stock of capital toward a desired future stock (the neoclassical-Hayekian perspective) for the purpose of profit maximisation. On the flip side, the determinants of investment are also affected by the cost of capital or by supply-side variables. In the demand-led approach (Keynes and Kalecki), investment is determined by effective demand and growth in income. This approach incorporates the 'circulating' aspect of investment in the sense that it

emphasises that investment is not static but in constant fluctuation. Profit maximisation, however, remains the driving force behind the decision to invest. In Syria, a country that has always been in an official state of war, market asymmetries and transaction costs overwhelm and annul the equilibrium price, which could hardly exist anywhere. With little capital to provide supply, low productivity and wages, demand management alone can do little to push up income and induce Syrian investment. In what follows, the intricacies of theory are exposed in order to situate the investment-in-Syria-argument on sturdier footing once the economic history of Syria is taken up in detail.

1 Investment, capital and capital accumulation

Investment is strictly defined as the change in capital stock over a period of time and/or as the purchase or acquisition of new plant and equipment that leads to an increase in the country's stock of productive assets – the creation of resources – to be used in production (Eatwell et al., 1998: 980–81; Sherman and Evans, 1984: 156–58). The stock of capital grows as new investment, or what is known as gross fixed capital formation, is produced or purchased.[1] Consequently, investment, in this sense, is a *flow* term – the Keynesian definition – unlike capital, which is a stock term). It needs to be measured over a period of time; this is in contrast to capital, which is measured at a point in time.[2]

From a static mathematical perspective, investment can be measured in gross or net terms. While gross investment is the sum of additions to the capital stock, net investment is gross investment minus any reductions from the existing capital stock (Hunt and Sherman, 1986: 453; Lund, 1971). Net investment is equivalent to the output of the capital-goods industries (plus additions to working capital) minus what is needed to *replace* worn-out equipment or used-up stocks (Eatwell et al., 1998: 981).

A more holistic standpoint defines investment as the key variable in the dynamics of capitalism and the means of growth in the national economy. The crucial driver of economic growth is productive investment or investment in new technology and plant and equipment (Harrod, 1936; Hicks, 1950; Samuelson, 1939). Employment growth arises from productive investment; that is, investment which incrementally adds to non-labour saving capital stock. In turn, the prospect of growth influences new net investment. In this cyclical process, if new technology is introduced exogenously or developed

endogenously, the economy is locked into a virtuous circle whereby high investment levels repeatedly enhance economic performance. More generally, new firms will hire more workers, resulting in more employment and more demand for consumer goods. In the absence of significant external leakages, fluctuation in macroeconomic output – or what is known as a business cycle – is generated from the basic interaction between investment and the latter's amplified effect on output through the multiplier effect.[3] More importantly, increasing investment not only creates effective demand and galvanises the utilisation of resources, but it also builds productive capacity, generating more goods and more wealth.[4]

Capital is here defined as a mass of human-made equipment used in the production process to produce other goods including machines and factories. The stock of capital grows as new capital or, more aptly, investment is produced or purchased (Sherman and Evans, 1984: 156–58). Capital, in this definition, involves two assumptions. First, the definition assumes that capital is ahistorical, meaning that it can be said to exist in all societies, past, present, and future. Second, it assumes that *things* of their own accord, by themselves, produce an income stream. However, the Marxist definition of capital is based on the rejection of these two assumptions, because capital cannot be understood apart from capitalist relations of production (Bottomore, 1983: 68). For Marx, 'capital' in the sense of human-made objects used in production – things – has always existed, but capital under capitalism is not a *thing*. It is a social relation which becomes manifest in things/commodities (Bottomore, 1983). Marx writes in *Capital*, Volume III, chapter 48:

> Capital is not a thing, but rather a definite social production relation, belonging to a definite historical formation of society, which is manifested in a thing and lends this thing a specific social character…It is the means of production monopolized by a certain section of society, confronting living labour-power as products and working conditions rendered independent of this very labour-power, which are personified through this antithesis in capital. (Marx, 1962)

Capital is an immaterial social relation of production that creates a social condition by which it privately appropriates socially produced wealth (Fine and Saad Filho, 2004; Mészáros, 1995; Wood, 2002). Within this Marxist understanding of capital, capital accumulation is the process by which 'social classes under capitalism relate to each other in the process of production, exchange, and distribution to create more

commodities and wealth (Kadri, 2013).' Capital accumulation remains the fundamental dynamic of capitalism and of the capitalist class since its inception (Bottomore, 1983: 272). In more concrete terms, capital accumulation is the maximisation of profit and of capital growth. A crisis of capital accumulation is then the failure of the ruling social class to reproduce the necessary social conditions for increased production and growth. By the same token, the crisis of capital accumulation is manifested in the burden borne by the peripheral classes as a result of dislocation resulting from the accumulation process (Kadri, 2013). Thus, the very concept of capital accumulation varies drastically and acquires a new content in different stages of capitalist development. This form of capital accumulation, which is prone to overproduction crisis, is therefore specific to capitalism.

2 The conventional neoclassical theory of investment

The neoclassical theory of optimal capital argues that the theory of investment mainly concerns (a) the desired or 'destined' *stock* of produced fixed capital that producers would want to have at some juncture, and (b) the *flow* of investment, which moves the capital stock from the current to the desired amount (von Hayek, 1950 [1941]; Jorgenson, 1971; Jorgenson and Hall, 1963; and Knight, 1936, 1946).[5] The approach considers the adjustment of investment to an 'equilibrium level.' Investigation of investment determinants is handled at firm-level, meaning that the complexities of the macroeconomic structure are overlooked. The analysis is confined within the rigid micro-level optimisation assumptions of the neoclassical approach. Investment is viewed as a component of aggregate demand that is shaped by supply-side conditions or more generally by factors related to the cost of capital (Fisher, 1954 [1930]). In this model of intermittent adjustment, investment becomes a function of the interest rate, whereby demand for investment falls with an increase in interest rates and vice versa (Clower, 1954).[6] In the 'desired' stock model, the 'optimal' capital stock is the level at which the Marginal Productivity of Capital (*MPK*)[7] is equal to the cost of using capital (that is the rental cost of capital, which is understood to equate to the interest rate) (Clark, 1899). It follows, therefore, that there is no extraordinary profit left to the capitalists at the 'equilibrium level.'[8] The firm will keep investing until the *MPK* is equal to the interest rate, assuming profit and utility maximisation, perfect competition, and a well-behaved neoclassical production function in which market prices fully reflect all available information

(Fazzari and Mott, 1986–87: 171 and Poitras, 2002: 106). This analysis presents a 'stable' or 'stationary' investment function that operates within an explicit perfect competitive economy with perfect information and with minimal need for public policy, which may only exist to correct for market imperfection (Fine, 2001).

In Syria, there are practically only imperfections and little perfect competition or symmetries either in information exchange or power structures. The role of public policy progressively served private ends, from which the interests of the public was discarded. The ideal neoclassical world is already ideal for societies in which the market institution is governed by the rule of law and the power structures are not too biased for an even playing field to emerge. In Syria, the real conditions are so imperfect and distorted, such that, an investment function cannot possibly be mapped by a price system whose natural end is to steer commercial gains away from social welfare.

The recent strand of the literature on investment determinants has considered a broader set of factors when studying investment. A plethora of empirical literature has discerned the impact of different factors, such as fiscal policy, financial availability, broader macroeconomic factors (inflation), policy instability and risks on supply-side variables, and on investment at the firm level (Alesina et al., 2002, 2005; Batra et al., 2003; Calomiris and Hubbard, 1990; Cummins et al., 1994; Fazzari et al., 1988; Hubbard et al., 1995; Sakellaris, 1994). Like the preceding neoclassical model of investment theory developed by Jorgenson and others during the 1960s, the recent strand of literature has also been set within the constrained framework of the firm maximising profit and/or minimising costs. Whether considering firm-specific or micro-level variables, or much broader macroeconomic stability variables, the empirical analysis at the firm level has also concentrated on the supply side. These studies investigate how different micro or macro components can influence profits and investment through their impact on the firm's cost of production (cost of capital and labour). State intervention is conceived as a microeconomic supply-side measure that is separable from the macroeconomic demand-side policies. The economy therefore is perceived as a price-determined system. [9] In this sense, aggregate level performance of the economy – changes in output (income) and rates of profit – are ignored, while social and political considerations in the economy are also neglected.

There is always an interface between the macro context and micro or individual initiatives. Transparency, the free flow of information and the extent to which individual agency is realised in the state permits

the micro-macro interface to be codetermined by the social forces of society as a whole, with the broader context shifting itself to accommodate newly arising individual or firm level circumstances. Even cursory knowledge of Syria demonstrates that individual agency or firm level initiative is subordinate to a macro context. In Syria, the latter is a policy framework, which is construed to channel resources from the working to the owning classes. No price system is undistorted by power relations. Prices are the purveyors of value, which, in turn, are regulated by the corresponding powers and macro shares of capital and labour. However, the Syrian price system itself, which 'clears the market,' has gradually favoured the ruling class as openness progressed, and has become biased to the point where the story of the profit maximising firm that emits jobs and welfare became completely nonsensical. In point of fact, the immiseration of working class conditions reached a dreadful point just prior to the uprising as will be demonstrated by the content of this book.

3 Drawbacks of the neoclassical theory of investment and capital

> The real source of trouble is the confusion between comparisons of equilibrium positions and the history of a process of accumulation. We might suppose that we can take a number of still photographs of economies each in stationary equilibrium. This is an allowable thought experiment. But it is not allowable to flip the stills through a projector to obtain a moving picture of a process of accumulation. (Robinson, 1980 [1974]: 57)

No critique of neoclassical economics would be complete without reference to the Cambridge Controversy. The neoclassical model considers capital to be physically homogenous, computes physical capital goods or machines in value terms, and uses this money value as a proxy for physical capital involved in the production process (Samuelson, 1962). The total value of capital is computed as the product of physical units (buildings, machines, etc.) with their respective (equilibrium) prices. The neoclassical method attempts to overlook the complexities of the economic system, which is essentially built upon a set of heterogeneous capital goods. Samuelson contends that 'the surrogate (homogeneous) capital ... gives exactly the same result as does the shifting collection of diverse capital goods in our more realistic model' (Samuelson, 1962: 201). This result is considered sufficient to justify using the surrogate production function 'as a useful summarizing device' (Samuelson,

1962: 203). In other words, Samuelson's 'more realistic model' is functionally equivalent to an aggregate production function, in which one produced good can be stockpiled for use as a capital good along with labour in the determination of output, and the marginal products of these inputs are estimated on the assumption of substitutability between factors of production that gives rise to diminishing returns (Cohen and Harcourt, 2003).

Capital, however, is not homogeneous. Physical capital covers a multitude of things too various to be easily reduced to one homogeneous substance. This realisation incited a lively debate on capital theory during the 1960s – known as the Cambridge Capital Controversy – which principally deals with the measurement of capital goods in aggregate production function models.[10] Piero Sraffa points out that there is an inherent measurement problem in applying the neoclassical model of value and income (Sraffa, 1960): in reality, capital is an ensemble of heterogeneously produced goods. It cannot be aggregated in physical units; capital valuation must be used instead.[11] Sraffa (1960) argues that the value measurement of capital requires the prior knowledge of equilibrium prices, which in turn requires an equilibrium rate of profit that cannot be obtained unless the value of capital has been estimated. The neoclassical approach postulates that estimating the rate of profit requires the prior measurement of capital or 'aggregated capital,' which is measured independently of the rate of profit and of income distribution (Pasinetti and Scazzieri, 2008). This unidirectional method leads to the second paradox in the Cambridge debate: the circularity or interdependence paradox (Cohen and Harcourt, 2003). Sraffa shows that the direction of causation between the rate of profit or Marginal Productivity of Capital (*MPK*) and the amount of capital can be reversed. Rather than the rate of profit or *MPK* depending on or being set by the amount of capital used in the production process – as the neoclassical school argues – the amount of capital in fact depends upon the rate of profit (Harcourt, 1972). Following this argument, Sraffa shows that a change in the amount of capital can actually be affected by a change in the rate of profit (Schefold, 2000).

More importantly, Sraffa shows that the *MPK*, which is equal to the rate of return on capital, can reasonably approximate profits at the individual level but not at the aggregate level. Hence, the distribution of income (the profit, the wage rate) and their associated price levels are not determined by market forces. Micro-profits and wages denominated in prices are no longer an explanation superimposed on the macro-accumulation process. This raises the question as to which forces are actually behind

the redistribution of income in society. Wages and profits denoted by prices are the product of the social forces that control the accumulation process and of the way society reproduces itself. Profits continue to be the prime mover of the production process; but it is the social class in charge of the process of capital accumulation that is earning profits as a whole and redistributing them among class members (Walsh and Gram, 1980).

While the neoclassical theory assumes that a supernormal profit rate fails to appear or is notionally set at the zero mark at the perfectly competitive equilibrium level, the Marxian analysis of capital accumulation allows for a positive rate of profit and views it as an integral part of the process of capital accumulation, and more generally as the essence of capitalism. Marx's analysis of capital accumulation is presented in Part VII of *Capital*, Volume I. The circuit of capital ($M - C - M'$) is a simplified form of Marx's interpretation of the capitalist movement of value. A more complete description of the circuit of capitalist production is $M - C \{MP, LP\} \ldots P \ldots C' - M'$ (Fine and Saad Filho, 2004; Foley, 1986). The process of capital accumulation for Marx starts when the capitalist proceeds with an amount of money (M) to purchase two types of commodities (C): means of production (MP) and labour power (LP). In capitalist society, the capitalist class does not produce anything itself (i.e., the class does not start with C). Rather, it starts with a sum of money (M) that it invests in workers, machines, and raw materials (C). During the production process (P), the workers transform the means of production (MP) into new commodities (C') that are then sold for more money (M'). There are two transactions, buying ($M - C$) and selling ($C' - M'$) and the difference between M and M' is profit (Foley, 1986; Larrain, 1989). This implies that the sum of money used at the beginning of the process was not only spent but enlarged. The driving force behind this whole process is money and profit-making. That is to say, the profit fulfils the capitalist's desire to accumulate wealth.

> The objective content of the circulation we have been discussing – the valorisation of value – is his subjective purpose, and it is only in so far as the appropriation of ever more wealth in the abstract is the sole driving force behind his operations that he functions as a capitalist … Use values must therefore never be treated at the immediate aim of the capitalist; nor must the profit on any single transaction. His aim is rather the unceasing movement of profit making. (Marx, 1990: 254)

The capitalist system of production hence lacks any intrinsic end or limit and has an entrenched need for additional expansion. This process continues as *M′ – C – M″*. Nevertheless, further capital accumulation inevitably leads to a drop in profit rates (due to excess capacity and higher organic composition of capital – better technology) and this in turn leads to a drop in capital accumulation. Marx develops in *Capital*, Volumes I and III, the idea that capital must accumulate in order to survive. In this sense, 'the movement of capital is limitless' (Marx, 1990: 253). For Jorge Larrain, 'the process of development can be described simultaneously as increased capital accumulation and as continuous growth of productive forces and of commodity production ... the latter is the condition for the former' (Larrain, 1989: 42). However, not only are commodities and surplus produced, but the whole set of conditions necessary for the continuation of this process must also be reproduced (Emmett, 1923: 217). For Marx, capitalist development is about the continuous expansion of productive forces and the increased production of commodities, along with the reproduction of class relations (workers and capitalists as separate classes) in the capitalist process of commodity production (Foley, 1986: 63).

The third paradox of the Cambridge Controversy is known as 're-switching,' which can be summarised in the proposition that there exists no monotonic relation between the amount of capital and the rate of profit (Pasinetti, 1969). The idea that there exists an inverse monotonic relation between the demand for capital and the interest rate holds true in the 'financial' concept or definition of capital but not in its 'technical' or 'physical' conception (Cohen and Harcourt, 2003: 201). This debate on capital theory proves that an increased amount of capital in production need not be followed by a falling rate of profit. On the contrary, a combination of high rates of profit and increased amounts of capital can be attained by way of cost-effective techniques (Cohen and Harcourt, 2003: 202). It follows that capital does not necessarily manifest diminishing marginal productivity, and this represents a challenge to one of the major assumptions of the neoclassical theory of capital. The condition that an economy comes to rest at an equilibrium level is dissipated by virtue of these results. In this regard, Samuelson sums up the Cambridge Controversy discussion by saying that 'the simple tale told by Jevons, Bohm-Bawerk, Wicksell, and other neoclassical writers,' according to which a falling rate of interest is unambiguously associated with the choice of more capital-intensive techniques, 'cannot be universally valid' (Samuelson, 1966: 568). In passing, the use of universal validity in something as manifold, heterogeneous and real

as social science proves the corrupting element of Neoplatonist mathematics on economics. Nonetheless, the lack of adequate stability raises concerns about the equilibrium level as an end of the economic process. Robinson (1980 [1974]) explains that the equilibrium theory cannot be considered adequate for analysing the process of capital accumulation. That is why a demand-led – which incorporates the 'circulating' or 'fluctuating' aspect of investment – becomes a more appropriate analytical tool for studying investment in developed countries. In the following section, investment is studied via the aggregate-level performance of the economy, in that it is looked at as a function of changes in output (income) and rates of profit. The conventional assumptions of micro-level optimisation and their associated equilibrium levels are thereby set aside.

It is peculiar why, after so much evidence invalidating the neoclassical construct of capital and the way it is circularly defined by profits and defines profits, the concept remains in common usage. A *prima facie*, all is heterogeneous, and homogenisation is simplification for the sake of illustration, but not theory. Quantification by mathematics is a tool and not an end of knowledge in itself. To base a social theory on universal mathematics or outward manifestation of quality in quantity reduces reality to an illusion. Syria, of all places, is as heterogeneous as can be. Between the social and technological levels, one can find the tribal social bonds or ox-driven technology and advanced atomised families or assembly line production. The macro prices: wage, interest, and exchange rates are administered by the social force in control of the state. It universalises different economic processes in the same money form for the purpose of grab. But at what social cost? And what are the underlying value transfers from the working to the ruling class?

Value is the category which is omitted from the Cambridge Controversy. This school reads the capital circuit from the money form manifest in the macro structure. In the developing world, behind the exchange structure, the money form serves as an instrument of repression and re-colonisation. Without value theory, an adequate reading of conditions in developing formations, cannot be accomplished. Capitalism does not impart progress onto non-sovereign developing formations that have lost or are on the way to losing the national liberation war. It, in fact, deconstructs developing capital to render developing states into repository of loose materiel, raw material export, and consumption basins. Weakened developing formations become pedestals for the growth of central capitalism. The developing formation's value that

could be produced is capped by imperialist assault. These operations of the law of value, which are at work in Syria, are not entertained by the Cambridge Controversy.

4 The demand-led approach to investment

> Estimates of the future earnings of capital goods must, in the nature of the case, be based largely upon guesswork, and investment will increase if, for any reason, expectations of future earnings of capital goods become more cheerful. (Robinson, 1964: 24)

Unlike the price-determined neoclassical system, the demand-led approach differs from the neoclassical notion of optimal capital that models investment as an adjustment of capital to an optimal level. An economy is demand-determined 'when its level of output is limited by one or all of the components of aggregate demand, consumption, private investment, government expenditure, and exports (Weeks, 2005: 11).' Under the demand-determined theoretical framework, the existence of the general equilibrium price level is debatable, because relative prices are affected by the aggregate demand and change according to the rise and fall of aggregate demand.

The demand-determined approach presents investment as the key determinant of the level and rate of change in output (and therefore employment). Growth in an economy arises from investment expenditure that adds to the capital stock, and it is this prospect of growth that generates demand for new net investment. Investment, in this case, is principally viewed as a behavioural-response process. Naturally, capitalists or entrepreneurs invest for the sole motive of generating expected future profits. The expectation of profits plays a key role in investment decisions because, if expectations of profit vanish, investment will slow down and the economy will be pushed into a slump. Conversely, if expectations for profits are too buoyant, investment spending will rise and the economy may be thrown into an unsustainable boom, whereby the profits expected by investors cannot be realised. The boom will then reverse into a slump. It is therefore postulated that the level of investment each year is determined by endogenous factors such as the expectation of sales and profits, and more importantly, the rates of profit.

Robinson (1964) considers the cyclical patterns of investment, which she describes as the 'rhythmical tendency in investment' and emphasises the importance of technical knowledge in maintaining investment levels, thereby acting as stabiliser of this rhythmical rise and fall in investment. She also suggests that the 'inducement to invest' is governed by

'animal spirits' and is further determined by the availability of finance, the expected rate of profit (as compared to the rate of interest), and by the amount of existing capital stock.

Kalecki and Keynes independently present frameworks of investment analysis that spring from the demand-determined approach to investment with an emphasis on financial conditions. By bringing forward the psychological factors in the determination of investment, Keynes introduces the behavioural perspective to investment theory and the shifting of expectations within investment decisions (Keynes, 2008 [1936]: 147–49), and contends that expectations of profit play a key role in the investment process. Accordingly, investment here is not about ideal adjustment but rather about pertinent behaviour; meaning that entrepreneurs seek optimal investment in a given period of time based on expected returns on new capital.

Although Keynes initially considers that interest rates in general play a role in determining the level of investment, he later argues that during a slowdown of economic activity, a low interest rate would not be enough to motivate investors because the overall economy would be undergoing a slump. A low interest rate in this case is indicative of low demand for money and low investment during a recession (Goodwin et al. 2006: 22). It would, therefore, not be profitable for investors to invest since consumption and overall aggregate demand are low.

In his theory of investment and capital accumulation, Kalecki develops the demand-led approach to investment at a time (during the 1930s) when such approaches to economics were not much appreciated. He never discounts the psychological factors that influence investment, insisting that capitalists react principally to their expectations of realised profits (Kalecki, 1972). Kalecki argues that the decision to invest (*D*) is positively influenced by the availability of funds (*S*), change in aggregate profits (*dP/dt*) and technical progress (*d*) and negatively affected by the change in capital stock (*dK/dt*). Equation 2.1 represents Kalecki's interpretation of investment decision in fixed capital (Kalecki, 1968).

$$D = aS + b\ dP/dt - c\ dK/dt + d$$

Equation 2.1 Investment decision with fixed capital

During the process of decision-making, investors need finance, which can be raised either internally from previous profit-making or externally from rentiers and capitalists through the intermediation of the banking sector. *S* is savings, and *a*, the measure of financial intermediation; it is

expected to be less than one, because if *a* is equal to or greater than one, then investment plans will be up to, or run ahead of ,savings and the problem of investment expenditure lagging behind potential savings would not take place. Technical knowledge also helps to maintain investment levels and assure the continuity of a constant business cycle. That is, random technology shocks can act as an absorber to the rhythmical fall of investment and to the dying away of the business cycle.

According to Kalecki, the change in the level of profits creates incentives for capitalists to invest, and increased investment will inevitably add to the capital stock. Capitalist firms would want to maintain sufficient capacity to meet forthcoming demand. As the volume of capital equipment increases, the rate of profit, which leads investment by some time, will start falling.[12] So when this capacity – which involves carrying costs – rises relative to demand, it will become excessive and thereby raise costs, reduce profits, and depreciate the existing capital stock (part of capital is withdrawn or even destroyed as the increased stocks cannot be sold) (Kalecki, 1954). That is, when capacity rises faster than demand, capacity utilisation will decrease and excess capacity will rise, thereby pulling down the rate of profit. The decline in the rate of profit will reduce the investors' motivation to invest and restrict the boundaries of investment plans (Feiwel, 1975: 162).

This reminds us of Robinson's phrase 'rhythmical tendency of investment.' 'The tragedy of investment is that it calls forth the crisis because it is useful (Kalecki, 1937a: 96).' Nevertheless, the decline in the rate of profit does not mean that the latter will remain low. The rate of profit sways like a pendulum, in the sense that it will rise again when all capital becomes cheap after the crisis, making it profitable for investors to invest again (Feiwel, 1975: 161–62). Against this backdrop, the developed world faces the crisis of overproduction, insufficiency of effective demand, and a glut in savings. This creates a need for subsidising consumption and maintaining investment levels. If the government seeks to maintain a certain level of investment, then subsidies on consumption are required, given the role of consumption in creating effective demand.

The utility of an ahistorical theoretical approach to the study of investment remains limited, if not negligible, for examining the principal determinants of investment in the developing countries like Syria. The Syrian state was in direct control of credit allocation according to an annual credit plan and thus set in advance the quantity of private lending needed for investment purposes. So, the very market forces that were supposed to set prices could not take account of changes in investment strategies in Syria. In this regard, internal financing (private saving)

needed for private investment and as expounded by Kalecki's Equation 2.1, played a minimal role. Because the private sector in Syria held relatively small savings, naturally its role would be minimal. Private-sector investment's subordinated linkage to Western capital would also make its quality contribution to investment minimal (FDI is namely oil seeking). The Syrian state's plans to build capacity and to improve demand conditions defined its lending, and it increased credit to boost both private and public investment. One must not forget that Syria was caught in the grip of the Cold War and the war with Israel, which meant its technological advances were part of its security structure. The last factor influencing private sector investment (the changing level of capital stock) in Kalecki's Equation 2.1 of investment decision is completely irrelevant when applied to Syria ,because it is still an undercapitalised developing economy. Owing to Syria's current state of underdevelopment and to the fact that its capital stock is less than modern (low scale effect), Syria cannot overproduce. That being said, the rise in the capital stock that would dent investment was – and still is – highly unlikely to take place in a capacity-deficient economy.

5 Expectations, risk and uncertainty

When speaking of Syria or any other Arab or African country, risks and uncertainties abound. In this section, I will briefly address the nature of these uncertainties and how they relate to the Syrian context.

Given a number of known alternatives, risk arises when the future can only unfold as one of these alternatives. More technically, 'risk is the exposure to a proposition of which one is uncertain (Holton, 2004: 22).' The theory of probability is intended to predict a future outcome that is constrained by a set of possibilities. The history of previously known events enables investors to assign a probability to each possible outcome. Risk in this sense is a specific mathematical probability assigned to a specific possibility. However, uncertainty is quite different from the simpler concept of risk. Keynes gives as an example of uncertainty: the chance that a war might break out (Keynes, 1937: 214). Probability calculations cannot be helpful in this regard, because there is no prior history on which to build the calculations. As Keynes argues, '[A]bout these matters, there is no scientific basis on which to form any calculable probability whatever. We simply do not know' (Keynes, 1937: 214).

Investors develop expectations when faced with future risk. The demand-led approach to investment regards expectations as heavily conditioned by the present and recent past, meaning that they tend to

be adaptive to circumstances but are prone to changes in the sense that mistakes might occur if expectations go wrong. Both Kalecki and Keynes agree on the concept of adaptive expectations and their fragility. In their view, currently held expectations are a weighted average of past events. For instance, if prices are rising rapidly, then people will expect them to continue rising (Kalecki, 1962). That is, during business upswings, rising output and profits generate a mood of optimism; on the other hand, a sense of pessimism prevails during downswings (Sawyer, 1985: 280–81). This trait of everyone following and copying everyone else is termed conventional judgment.

In his *General Theory,* Keynes states that investment determinants are influenced by 'subjective' factors such as 'whim,' 'sentiment,' 'animal spirits' or 'spontaneous optimism' (Keynes, 2008 [1936]: 161). Keynes's handling of the issue of expectations lies at the core of this demand-led approach to investment. He states that an entrepreneur, who is rationally guided by past and present experiences, undertakes an investment.[13] He also mentions that the considerations that help drive an investment undertaking are based upon 'partly existing facts' that 'can [be] assume[d] to be known more or less for certain' (Keynes, 2008 [1936]: 146) as it would be 'foolish... to attach great weight to matters which are very uncertain(Keynes, 2008 [1936]: 148).' Although investors are faced with future uncertainty, they nevertheless possess extensive knowledge (or information) of their current societal happenings and practices, which in turn, helps them maintain a basis for their investment decisions (Lawson, 1985: 917–18).

Keynes emphasises that conventions form the investor's 'state of confidence' in the present (Keynes, 2008 [1936]: 148). They also build long-term expectations (*LTE*), reviewed in chapter 12 of the *General Theory*. However, once the existing conventions and the 'steady' *LTE* based on past knowledge are disrupted, a breakdown in the investors' 'state of confidence' occurs, thereby leading to investment volatility and precariousness. According to Lawson (1985: 921–22), the disruption is known as a 'structural break,' which is usually followed by a period of 'adaptive learning' and/or 're-adjustment.' In short, changes in expectations will lead to significant changes in the propensity to invest.

Kalecki propounds the issue of risk further. The Kaleckian 'Principle of Increasing Risk' assumes that subjective risks faced by entrepreneurs are an increasing function of the rate of capital accumulation (for fear of overproduction setting in). Kalecki proposes that the 'inducement to invest' is determined by the rate of profit and rate of interest (Kalecki, 1937b: 440). The rate of investment decisions is an increasing function

of the gap between the rate of profit and the rate of interest. In this sense, investors will invest as long as profit (rate of return) exceeds the rate of interest. As long as the investment project is fruitful and capable of repaying the costs of investment, then the investor will undertake the project.

The Kaleckian risk function described above cannot be applied to the Syrian economy, because the risk that characterises a developing economy in a state of war is not only high, but is one that can easily be transformed into unforeseen and incalculable uncertainty. As expounded by Keynes, this kind of risk represents one in which the bulk of institutions and capital assets could be wiped out in some form of war, as is happening in Syria at the time of writing in early 2015. This risk that can easily be transmuted into immeasurable uncertainty puts the very existence of the state at risk, just like what happened to Iraq after the US invasion in 2003 and to Syria and Libya after the ignition of the uprisings in 2011. In this regard, government intervention in the economy becomes essential, particularly in mitigating the effect of uncertainty and in stabilising and regulating total investment by increasing public investment. It should be remembered that Keynes (1926) states in the 'The End of Laissez-Faire' that 'many of the greatest evils of our times are the fruits of risk, uncertainty and ignorance,' recommending that public policy be used as a forceful measure to build productive resources and to alleviate the volatility of private investment, especially when the risk factor is more like uncertainty, as in time incoherence. The issue of handing over investment to the public sector will be discussed in more detail in Chapter 3.

6 Closing remark

Apart from the inherent theoretical limitations of the conventional neoclassical approach that were discussed above, the analytic tools of the theoretical approaches that study investment can at best be partially applied to the developed capitalist countries. They are wholly inapplicable to the developing countries, whose economies suffer from deficient productive capacities and whose financial markets are still underdeveloped. So even if one were to overlook the unrealistic assumptions of perfect competition, perfect information, and the full utilisation of resources, the neoclassical microeconomic tools of firm-level profit maximisation and cost minimisation are a truism that neglect the fact that sizeable investment in much of the developing world is a political measure first. Even a grocery store would want to raise profits and cut

costs, but manufacturing and capacity building are state policy concerns that immediately buttress security.

It is also not a case in which some sort of insurance premium or transaction cost can correct for imperfect information, imperfect markets, and frictions in order to reach 'full equilibrium,' whereby 'optimal' prices can allocate and distribute resources efficiently. Syrian markets differed fundamentally because the state had governed their performance since independence in 1946.[14] Investment in Syria did not operate within an explicitly free-market context, meaning that it did not relate to market-determined changes in the interest rate or other prices. The interest rate was state-determined and remained fixed for almost 22 years at 7 per cent, regardless of inflation and liquidity conditions (Central Bank, various issues). Moreover, prices were neither formed by the standard supply and demand conditions nor did they inform or signal how investment demand or any other demand should proceed in the future. They were controlled by the state first, and only secondarily did they respond to the forces of the market (interview with State Planning Commission); therefore, they did not act as key signals to producers and consumers. So, what is in Syria is a far cry from the Neoplatonism of neoclassical economics.

The Keynes-Kalecki approaches discussed in this chapter cannot be applied universally. They remain ahistorical and are unable to offer a comprehensive framework for the analysis of investment in most developing countries. The demand-led approach analyses the macroeconomy as a move along a sinusoidal function: from a peak to a trough or from bust to boom (the business cycle). In Syria, formulaic assumptions require the unrealistic assumption of stability to hold and, as such, a historical analysis is more adequate. Given that Syrian investment and business cycle were predominantly determined by a politically empowered social class, it is the nature and history of the class in power that better describes investment. Against this backdrop, a political-economy approach is adopted to expose the complexity of social, economic, and political factors behind investment decisions. The latter framework examines the social force that acted behind the state-controlled economy in Syria, managed the means of production, and took responsibility of the process of capital accumulation. Several factors pushed the politically empowered social class behind the state into endorsing certain type of public policy – whether expansionary or not – and its associated investment spending as such. These are historically determined circumstances, and as such, a rationalisation of the historical facts is the method of choice.

The next chapter discusses how different developing countries promoted investment by the deliberate intervention of the state from the 1950s onward. The developing countries face the problem of ineffective demand and supply (together) with the understanding that they may generate the financial wherewithal to build capacity and adequate equipment and to provide employment for the labour force. The undercapitalised developing economies need to mobilise their resources and enhance their productive capacities without due concern for overproduction, given the huge gap that they need to cover before they reach full employment. These issues will form the core of the analysis in Chapter 3.

3 Investment Promotion in Developing Countries

> The crucial problem facing the developing countries is thus to increase investment considerably, not for the sake of generating effective demand, as was the case in an under-employed developed economy, but for the sake of accelerating the expansion of productive capacity that is indispensable for the rapid growth of national income [...] This simple fact is the difference in the economic and political situations in these two groups of countries and, in a sense, [has] determined the present phase of history.
>
> (Kalecki, 1976: 23–24, 27)

In the previous chapter, I have shown how the crux of investment theory relates to conditions prevailing in the developed world, but depart significantly from conditions in developing countries. In this chapter, I analyse investment from the experience of the developing world. The purpose is to conceptually situate Syria's road to capital accumulation within a particular strand of theory from the web of developmental approaches addressing third world experiments. A review of investment promotion, in the state-controlled developing countries during the 1950s and 1960s will be presented. Apart from highlighting the importance of fixed capital investment, it summarises the means by which the developing states have historically intervened to augment their deficient productive capacities.

Although the demand-led approach addresses mainly developed world concerns, it tangentially touches upon developing world issues. Of note in the demand-led approach when the developing world is taken into consideration is the emphasis on public investment. In less than

full-employment conditions and in post-independence crisis, not only can state-led investment act as a counterweight to fluctuations in private investment by profit-seeking entrepreneurs, but it can also enhance the necessary economic resources required for ensuring the expansion of productive capacity. Keynes (2008 [1936]) states that investment operation should be handed over to the public sector. In other words, he calls for the 'socialisation of investment,' because deliberate state intervention could preserve the social aspect of economic growth. The market is seen to be able neither to generate the right level or mix of investment for developmental purposes nor to ensure an egalitarian distribution of income. Kalecki (1976) stresses the significant role that public policy or state intervention can play in this endeavour. He argues that, unlike the developed economies that face the problem of underutilisation of resources – because of ineffective demand, and that which can be solved by a financial trick – the developing countries necessitate that capacity is built. According to Kalecki, because of the shortage in capital equipment in a developing country, the available labour force cannot be fully absorbed even if all available economic resources were fully utilised. To ensure high and stable levels of employment, the developing states therefore need to decisively boost investment in fixed capital assets through effective policy measures. Nurkse (1964) goes further and argues that state investment and intervention in promoting fixed capital assets and rising wages in a controlled trade environment (the big push) lies at the very centre of the development challenge. All this is analytically sound, but when the political challenges to sovereignty and policy autonomy are introduced, the picture changes. In what follows, I expose the key points of the demand-led approach insofar as it addresses the developing world, with the aim of moving on to justify my historical reading of capital accumulation later.

1 The 'socialisation of investment'

As discussed in Chapter 2, private investment is volatile and is shaped by adaptive expectations that are susceptible to risk and sometimes immeasurable uncertainty. Because the market is unable either to generate the right level or mix of investment for developmental purposes or to ensure an egalitarian distribution of income, investment operation should be taken away from the capitalists and handed over to the government (Kalecki, 1976; Keynes, 2008 [1936]). Robinson points out that 'these [public investments] are not subject to the profit motive in the same direct way as private investment, and do not necessarily follow the same

rhythm' (Robinson, 1964: 26). They are more policy-determined and are not affected by the difficulties that the market system might impose. Keynes advocates that state intervention can 'secur[e] an approximation to full employment' and provide social benefits (Keynes, 2008 [1936]: 378). Accordingly, state-led investment can act as a counterweight to the fluctuations in business fixed investment that is undertaken by the profit-seeking entrepreneurs who are governed by their 'animal spirits.'

In the case of the developing world, state-led investment can also ensure employment-generating economic growth through the building of economic resources. Nevertheless, Keynes does not mean that the government should own the means of production and dictate economic activity. 'The necessary measures of socialisation can be introduced gradually and without a break in the general traditions of society' (Keynes, 2008 [1936]: 378). 'Socialisation of investment' is rather an economic adjustment between the propensity to consume and the inducement to invest so as to ensure an adequate level of effective demand that in turn can secure the continuity of a capitalist economy.

> [I]t is not the ownership of the instruments of production which is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary. (Keynes, 2008 [1936]: 378)

Kalecki argues that,as a moderator of macroeconomic fluctuation and the business cycle, state intervention can play an important role in attenuating cyclical downturns. Given that 'the underutilisation of resources is, in a sense, inherent in the developed capitalist system and ... may emerge at any time' (Kalecki, 1976: 20), the developed economies can deal with this problem by applying the 'financial trick.' Kalecki is referring to a loan-financed government expenditure by which the government manages to boost total aggregate demand and covers up for the fall in private investment, thereby resolving the problem of underutilisation of resources (Kalecki, 1976: 22 and 27).[1] In the case of the non-socialist developing economies, Kalecki stresses the need for building fixed capital, because the deficiency in productive capacity represents a far more critical problem than underutilisation of resources (Kalecki, 1976: 23). According to Kalecki, there is not enough spare capacity to employ the excessive labour force in a developing economy – notwithstanding the labour-saving characteristic of capital equipment. In other words, the developed economies exhibit excess capacity in the sense

that the available economic resources are adequate to provide employment for the entire labour force – provided that demand is forthcoming. However, the developing countries need to expand their productive capacity through increased investment in order to enjoy such a privilege. As Robinson (1964: 27) argues: ‘there is no getting away from the fact that employment will be increased when investment increases, whether the investment is useful or not.’ She underlines the immediate effect public investment can have on employment generation and on income expansion, especially during periods of high unemployment, no matter what the project’s long-term effects may be.

> When the Tower of Babel was being built a large number of men were engaged upon an entirely unproductive enterprise, but while they were at work they had to be clothed and fed; their wages were spent upon the current output of consumption-good industries ... [T]he idea that public works can be ‘wasteful’ in a time of severe unemployment, is therefore an illusion. (Robinson, 1964: 26–27, 29)

Apart from arguing that governments in developing countries should plan and ensure both the volume and kind of investment required for a vigorous and egalitarian development, Kalecki believes that the state should not run into chronic deficits to achieve this (Kalecki, 1976: 26). Instead, the state should raise finance either through taxing profits or through raising leverage and that the poor should never carry the burden of such finance.[2] Internal financing of investment can always be achieved through government savings, whereas external financing can be attained by external borrowing; the latter is usually extended and granted by foreign countries on a conditional basis. The injection of resources to finance investment should accompany the reduction of luxury consumption by the rich (through taxation) and never be done at the expense of a reduction of workers’ consumption, meaning that real wages should be maintained (Kalecki, 1963).[3]

Cooperation is also needed between the public and private authorities to facilitate the ‘socialisation of investment.’ Generally speaking, public investment may crowd out private investment only when the economy is near full employment – a highly improbable situation in a developing economy – or when the activities conducted by the public sector are equally undertaken by the private sector (United Nations, 2006–07: 71). When an economy has low levels of productive capacity, there is room for both private and public investment, especially when the two complement each other. In this sense, public investment can stimulate

or 'crowd in' private investment, and it is this combination of private and public investment that can strategically diversify the economic base and contribute to long-term sustainable growth (United Nations, 2006–07: 57).

Until this point, the above is a solid effort that captures the economic conditions of underdevelopment. But the economic is never alone. The uncertainties in a developing context are predictably unpredictable. What I mean by this sophistry is that there is a constant that is predictable, which is imperialist assault, but the impact and the damages of which are unpredictable. This is what the above demand-led school misses. It misses imperialist sabotage and regime change manoeuvring. The weaker states in the developing world have not a moment to relax; economic strategy is part and parcel of the national defence strategy. There are varying degrees to this, depending on the geopolitical context. Syria is possibly a foremost manifestation of a state that has to coordinate its national defence and economic strategy. What happens to the picture provided above by the esteemed demand-school scholars is that uncertainty becomes the day to day event with which one must grapple. Methodologically, once more formulas become of subsidiary value; history – that is the way people organise and shape their decisions about the future – becomes the subject of study. In the case of developing economies that are in need of escaping their underdevelopment trap, state intervention assumes new heights, as in planning the economic strategies. As Maurice Dobb argues the existing structure of market prices cannot be taken as a sure basis for forecasting the future structure, and hence the return on any particular investment project based on market prices will be unsure (Dobb, 1960). Dobb (1960: 4–6) sees that economic planning consists of 'an attempt to secure a coordinated set of investment decisions *ex ante*.' Prices are all distorted by power structures in free or unfree markets. In the planning mode, the price system is engineered to absorb shocks and to incentivise sectors that are crucial to national security, both in terms of freedom from want and imperialist hegemony.

2 Investment promotion in the developing world and the role of the state

This section reviews how developing economies, especially those that witnessed heavy-handed state intervention around the 1950s and 1960s – like Syria – promoted investment. Different developmental theories have been employed in the literature to explain the various ways by

which the developing states intervened in the market to achieve the goal of industrial advancement. The degree of state intervention varied from one model to another. In the developmental state model that characterised East Asian economies during the 1960s, the state's interference can be described as targeted, because the state chose priority sectors and protected certain key industries until these industries became strong enough to face foreign competition. In Latin American economies, state intervention was deeper during the 1950s, because the state protected all industries simultaneously, as per the structuralist paradigm (see Section 2.2). What both models have in common is that they accepted the philosophy of development through capitalism; hence the state fostered the private sector. It managed to govern the market by protecting and directing market activities but never assumed full control of the economy. In the case of East Asian economies, the state provided credits, subsidies, cheap services, and market incentives to boost private-sector activities and avoided competition with the private sector. In the case of Latin American economies, the state sought to change the structure of the economy and induce broad-based industrialisation through an import-substitution strategy to overcome underdevelopment.

There is a third paradigm, known as the state-capitalist paradigm, which provides a much more radical development strategy, and which will be the focus of this section because it draws on the Syrian experience during the 1960s and 1970s. In this model the state became a surrogate for the private sector because it, in effect, supplanted it. As opposed to the developmental state and the structuralist models, the state in the state-capitalist model imposed some degree of centralised-planning. By gaining control over major productive facilities, it sidelined the private sector. In addition to being the allocator of resources and the appropriator of economic surplus, the state took control of the means of production and pursued state-led industrialisation.

2.1 The developmental state paradigm

The developmental state model underlines the role of the state in decisively governing the market by supporting key business projects and accelerating economic development through intensive industrialisation (Weiss and Hobson, 1995). The basic argument behind this strand of literature is that the relative economic success in Japan and East Asia during the 1960s and 1970s was due to a combination of state intervention and market discipline. The capacity of governments to accelerate development was tied to raising productive and value-added investments, promoting some activities ahead of others, and taming domestic

and international forces and harnessing them for national outcomes (Öniş, 1991). This literature is pioneered by Johnson's work on the Japanese industrial experience (Johnson, 1982). Meanwhile, Wade (1990) and Amsden (1989) fit the experiences of the economies of East Asia (Malaysia, South Korea, and Taiwan) into the general literature on developmental state. Evans (1995) also focuses on state autonomy or embedded autonomy and its ability to create developmental plans and pursue them independently from private interests.

The state in Japan was a great innovator and an industrial pioneer in the country's early stages of industrial development. Industrial activities were planned and induced by Japanese state agencies. It was at a later stage, when the initial market difficulties obstructing economic development were resolved, that the state turned over the projects that it initially nurtured to the private sector (Nurkse, 1964: 15–16). According to the developmental state approach, the East Asian states undertook serious measures to reverse economic stagnation and achieve considerable success in economic development. By endorsing strategic industrial and sector-specific policies, these states were selective of key industrial sectors and specific private enterprises, such as the South Korean *chaebols*, and provided them with financial subsidies and tax breaks. In the case of South Korea, 'conditional subsidies' were introduced by the state to achieve socially responsible outcomes. Amsden (1989) describes South Korea as a 'guided market economy' in which the priorities of industrialisation preceded all other market considerations. The state intervened to distort prices: for example, it introduced heavily subsidised rates of interest on long-term credits so as to create profitable investment opportunities for investors and thereby promote the desired levels of investment in strategic sectors. Likewise, Wade (1990: 32) supports the method of 'getting the prices wrong.' He agrees that the governments of East Asia built their industrial nuclei by controlling trade and foreign exchange, providing export and tax incentives, and channelling resources into new growth industries whose performance criteria met international standards at a later stage.

According to the developmental state model, East Asian economic success was achieved by some sort of central planning. These states regulated the market through supervisory state agencies, installed rapid industrialisation by heavily subsidising a selected group of industries and directing resources into productive industries that were made competitive at international standards at a later stage. They did not displace the private sector. As summarised above, they supported and guided

business activities and ensured that a large proportion of investment was targeted toward building productive capacity.

2.2 The structuralist paradigm[4]

Latin American economies promoted import-substituting industrialisation in the 1950s and 1960s not only through heavy-handed state intervention, but also through a structural transformation that was meant to break away from the dependency on primary exports as an engine for growth and to enhance the industrial nucleus. This development approach has become known as the structuralist model. Structuralist economists, mainly Prebisch (1962) and Furtado (1958 [1954]), base their arguments on the idea that there is a single integrated world capitalist system that is polarised between 'centre' and 'periphery.' This system derives its development momentum from the centre, which comprises the advanced capitalist economies. The centre is capable of achieving self-sustained economic development independently of the periphery, whereas the periphery has lost the power to undertake independent industrialisation and achieve economic advancement. The centre is hence viewed as a structure that dominates the periphery and reaps parts of its economic surplus.[5] The economic conditions of Latin American nations during the 1930s and 1940s involved deteriorating balance-of-payment crises, falling export prices of primary products, and continuing shortages of manufactured imports. According to the structuralist model, industrial development in these economies was deterred by foreign competition and the small size of the domestic market. Without a structural transformation that gradually cuts all links to international capital and expanded the domestic industrial production including capital goods to ensure sufficient internal capacities and to minimise economic vulnerabilities, self-sustained economic growth could not be attained. According to these economists, this was the only way the economies of the periphery could reap the benefits of the productivity gains of both their primary and potential manufacturing production (Prebisch, 1962).

These peripheral economies therefore stopped exporting primary products to the capitalised economies and introduced an import-substitution strategy that was meant to boost industrial production and block foreign competition. Latin American governments firmly introduced integrated and comprehensive long-term development programmes that focused on increasing industrialisation. They instituted protectionist tariffs, quotas, foreign exchange controls, and tax concessions to industrial projects, all of which protected the local market and initiated Import-Substitution Industrialisation (Furtado, 1958 [1954]; Prebisch, 1962).

A caveat is required here. State planning in the structuralist paradigm should not be confused with the state taking over full control of the economy: that is, owning the means of production. Structuralist economists talk about *programming* to avoid confusion with *socialist planning*. According to them, the state's role is only limited to guiding and strengthening the private sector through fiscal policies, meaning that it cannot supplant the private sector. The structuralist paradigm accepts that the process of development must be conducted under capitalism and seeks to bring about changes in the structure of the economy through reforms in existing economic policies rather than through radical political and social transformation. Although land reform is advocated by these thinkers, it has never received priority attention. The following section tackles a more radical transition that was undertaken by other developing economies in terms of a series of progressive changes such as land reform and far-reaching nationalisation. The state not only guided the private sector but substituted itself for the private ownership of capital in the sense that it became the main resource allocator and distributor of revenues.

Following the structuralist paradigm, dependency theory emerged as a radical challenge to the already established theories/paradigms to offer an analysis of the capitalist system in the periphery as a structure of domination and class exploitation. The main advocates of this view are Amin (1976a), Dos Santos (1970), and Frank (1978) who reiterate the themes of unequal exchange between the centre and the periphery and unequal development. They consider the transfer of part of the economic surplus from the periphery to the centre to be the major cause of underdevelopment. Penetration by multinational corporations has generated employment for a privileged minority who receive higher wages than the subsistence-level incomes of most informal-sector and agricultural workers. This has resulted in social inequalities and long-term de-capitalisation in the developing economies (Furtado, 1973; Petras, 1976a) along with continuous extraction of surplus from the periphery in the form of unequal exchange and repatriated profits. Amin (1976a) postulates that underdevelopment in the 'Third World' is a necessary complement to the capitalist development in advanced economies. 'The peripheral countries are forced to meet the needs of the world market system by producing raw materials and providing a pool of cheap labour, but are structurally prevented from industrialising as independent capitalist nations(Amin,1976a: 104).'

According to dependency theorists, development in the periphery will continue to be blocked as long as the developing countries do

not break the ties with the world capitalist system, achievable only though a socialist revolution. Amin (1976a), Dos Santos (1970), and Frank (1978) view underdevelopment to be permanent unless a revolutionary government takes over, breaks the bonds of the centre-periphery relation, and radically changes the internal structure of the developing economy. While the structuralist paradigm emphasises external factors when explaining the causes of underdevelopment in the periphery, dependency theory highlights internal ones by using class analysis. They expose the alliance of the domestic classes in the periphery – basically the merchant and the capitalist class – with international capital. It is this collaboration between the internal and external classes that has maintained the centre-periphery dependent relationship and blocked economic development in the periphery (Amin, 1976a; Dos Santos, 1970).

2.3 The state-capitalist paradigm[6]

Kalecki (1964) uses the term 'intermediate regime' to describe the sociopolitical structure of some postcolonial developing countries that achieved independence after the Second World War. These countries were neither strictly capitalist nor socialist but sought to regulate economic activities through far-reaching government intervention. On an international level, these 'intermediate regimes' obtained credit from both the *soi-disant* socialist and Western capitalist countries. This lessened the political pressure imposed by Western economies when giving out grants or financial credits and forcing certain conditions regarding the type of fiscal policies that the host economies should pursue (Kalecki, 1964: 7–8, 10). According to Kalecki (1976: 35), these 'intermediate regimes' are 'the proverbial clever calves that suck two cows, each [political power] bloc gives them financial aid competing with the other.'

Within this group of 'intermediate regimes,' the state-capitalist model is explored by scholars, such as Buick and Crump (1986), Petras (1976a), Binns (1986), Binns and Hallas (1976), Cliff 1974 [1955]), and Burnham (1945). An overview of the experiences of some developing state-capitalist economies in contemporary Africa, Asia, and Latin America during the post-Second World War period reveals three basic areas of socioeconomic change. The first was *étatisme* or the state's control over natural resources, which harnessed the surplus to national development projects and installed Import-Substitution Industrialisation (Amin, 1978; Petras, 1976a). The second was agrarian reform[7] that concurrently curbed the political power of the traditional landlord class; and the

third was far-reaching nationalisation of large-scale industry. All these radical changes were meant to reduce or minimise the economic and political dominance of foreign interests and to move toward national liberation.

Different authors tend to use different terms to describe state capitalism in the developing world. For instance, Petras (2000) considers state-capitalist regimes to be 'reform socialist,' Pfeifer (1979) terms them 'non-proletarian socialist,' and Amin (1992: 94) describes them as '*étatiste*.' Whatever description is used, the delineation of state-capitalist structure focuses on one main point: the state becomes the effective owner of the means of production, organiser of production, and appropriator of the surplus. More important, the state manages the means of production in a capitalist manner. According to Kalecki (1976: 33), these state-capitalist developing countries installed an internally induced, state-led industrialisation that was meant to expand the productive potential of the economy and remove the economic constraints of the postcolonial *anciennes régimes*. Economic planning aimed at accruing the financial prerequisites needed to kickstart the national development process. In the typical state-capitalist regime, the state replaced the private sector which, in the initial stages of post-colonial reconstruction, could not have carried out the more egalitarian redistribution itself, so it needed to align the national forces that could mitigate the power and influence of foreign interests during the postcolonial period. Initially, the private sector was immersed in crisis. The domestic capitalist class was known for its weak national allegiance and ties to foreign capital, and was also characterised by structural weakness, whereby it lacked the capacity to tap into the substantial resources needed for economic advancement (Kadri, 2012c; Kalecki, 1976: 32). Hence, under private-capitalist rule, independent and national development was not possible.

During the state-capitalist phase, the state supplanted the private sector, but never extirpated it (Kadri, 2012c). State ownership existed side by side with a constrained private sector with the limited undertaking of commercial, agrarian, and trade activities. As Ayubi (1995: 383) observes: 'private sectors within "socialist" [state-led] regimes have managed not only to persevere, but often to consolidate, themselves side by side with state capitalism.' The state extended supply and construction contracts to the private sector and many private-sector profits were won through subcontracting, as the latter gave rise to rent-seeking activities between state officials and businessmen. While public-sector activities were mainly targeted toward expanding

productive capacity (infrastructure projects, such as hydropower schemes, transportation development, healthcare and school systems, and the production of intermediate goods, such as steel, fertilisers, plastics, and paper) the private sector captured major consumer markets, such as textiles, appliances, processed food and beverages, and, of course, services (Richards and Waterbury, 1996: 416). In addition to that, tariff walls designed to protect public enterprises also protected private enterprise from foreign competition. This is an example of how state policies reinforced private commercial activities (Richards and Waterbury, 1996: 416–22).

In the case of Syria, the state in the 1960s and 1970s took upon itself the challenge of expanding its industrial production as a way to move ahead from its fragile postcolonial conditions. The heavy-handed state intervention and state-led industrialisation at the time was premised on the inability of the bourgeois class to act as an agent of investment discussed above, bearing in mind the impasse *ex ante* imposed on development in postcolonial dependent societies (Amin, 1976a; Petras, 1976a; Pfeifer, 1979).[8] The Syrian state at that time acted as an engine of growth and embraced the major spheres of economic life: foreign trade, banking, industry, construction, and other basic economic branches (Anderson, 1987: 11). It was assumed that the private sector could not be relied upon because of its inherent structural weakness and scanty real and financial resources. The Syrian state therefore tasked itself with the mission of increasing self-sufficiency in production and endorsed Import-Substitution Industrialisation. It kickstarted economic activities and created job opportunities for the middle and lower segments of society. Its far-reaching nationalisations included many sectors in the economy, (such as banking and industry), which undertook progressive land reform, and curtailed the activities of the private sector (Ayubi, 1995). The *laissez-faire* market, in which forces of supply and demand are active, was subordinated to planning and the application of administered prices. Against this background during the 1960s and 1970s, the Syrian case represented a model of state capitalism along with its main pillars of *étatisme*, agrarian reform and nationalisation. The Syrian state embraced the challenge of expanding domestic industrial production and placed the economy on an independent and nationalist path of development.

However, following this period of heavy-handed state intervention and public investment expansion, the Syrian regime started to introduce counter-reforms; major efforts were undertaken to reduce the size of the public sector and shift the task of investment promotion

and employment creation to the private sector (Hopfinger, 1996). These counter-reforms centred on investment liberalisation, whereby private investors (including industrialists) were allowed to invest in previously prohibited sectors. The fact that the private sector was not totally nationalised during the state-interventionist past was the stepping stone for Syria to pursue market-friendly reforms (Kadri, 2012c). As a result, the type of investment changed following the overall structural transformation. As opposed to the state-led industrial investment promoted in the 1960s and 1970s, investment in Syria fell under the sway of the private sector and was now concentrated in short-term activities.

Pertinent questions arise about the main reasons behind Syria's transformation from state-led to market-oriented economic structure. What were the determinants of investment during the 1960s and 1970s, and how did these factors change thereafter? Answers to these questions require a study of the historical conditions and political preconditions that influenced economic liberalisation in Syria and the subsequent change in investment patterns there. Also needed is an investigation of the social forces that pushed for state intervention and state-led investment during the 1960s and 1970s, and how changes in these social forces and/or alliances promoted gradual *laissez-faire* reforms and market-oriented types of investment from the late 1980s on. This book endorses a class-based analysis which identifies the politically empowered social class that acted behind the state and that had a say in the kind of public policy to be pursued in Syria during different historical phases, mainly the state-capitalist phase during the Ba'athist era and the open market economy phase during the Hafiz and Bashar Assad eras. From this perspective, the operation of investment is not only viewed as an economic component that translates into growth or deep recession, but is rather intertwined with social forces or human agents.

3 The state-capitalist class as the agent of investment

The state-capitalist class, also known as the state bourgeois class, is the key stratum that initiated or directed the transition from dependent development to state capitalism in a few developing economies that achieved independence after the Second World War. This transition was generally based on a radical-nationalist and anti-imperialist agenda that was hostile to foreign capital. The class consisted of party leaders, the upper level of the state bureaucracy, senior managers in the economic

enterprises, and the top ranks of the military and police officers (Buick and Crump, 1986: 56).

By means of a coup or political uprising, the state-capitalists – civil or military – seized control of the state apparatus and formed a bureaucratic milieu around the state (Buick and Crump, 1986: 56; Petras, 1976a). They spread their bureaucratic control over the economy, controlled the means of production, and directed the process of capital accumulation (Petras, 1976a: 433, 436). Through centralised rule, these state bureaucrats served national development interests as they retained economic resources inside the national economy. They also committed themselves to economic progress and initiated radical reform (land reform and nationalisation) – measures considered crucial to the developing world's economic advancement. This new state class also acted as an agent of investment and took direct responsibility for investment decisions (Buick and Crump, 1986: 46). In order to lay the foundation of a national and independent economic development, the state directed investment activities into industrial plants and infrastructural projects, all of which built productive capacity. The challenge, then, was to develop a large volume of state-led investment within the public sector and to cut the transfer of economic resources to the colonial powers.

From a political standpoint, the state-capitalist class sought to consolidate its social base of support by aligning with the educated middle class or the intermediate strata. The middle class is generally defined as white-collar professionals (schoolteachers, university professors, civil servants, accountants, military officers, medical doctors, engineers, and lawyers) whose status is dependent not on the ownership of property and wealth but on training and performance (Mosca, 1939: 404).[9] This stratum not only supplies recruits to the elites, but is considered a vital element in the government, because the stability of any political organism depends on the level of knowledge, consciousness, and activity of this stratum. The state-capitalist class voiced the socialist aspirations of the middle class and undertook the radical reforms previously discussed. The class alliance between the state-capitalist class and the middle class was accompanied by the political erosion of the traditional upper classes of the *ancien regime* – landowners and colonialist-bred bourgeoisie – and the promotion of others, particularly the new commercial bourgeoisie. Through some degree of egalitarian distribution, the state-capitalists succeeded in attaining political power under the 'banner of socialism' (Bottomore, 1993: 55).

A caveat is required here. Replacing private ownership with state ownership does not imply the complete abolition of the capitalist system or

fundamental capitalist social relationship (Buick and Crump: 1986: 15). When the state-capitalist class gained control of the state apparatus, it managed the means of production in a capitalist manner. On the one hand, economic activities were still geared to commodity production, that is, to production for sale; on the other, wage labour and the extraction of surplus value were also maintained.[10] Hence capitalist goals ('the realisation of profit in a class society') were never abolished either (Petras, 1976a: 433). The transition from postcolonialism to state ownership occurred without the change in the fundamental construct of capitalist property relations – wage labour and appropriation of surplus value. While the state-capitalist class drove out foreign capital, it nevertheless – in a Marxian sense – exploited the labour force. Workers remained wage workers, not 'freely associated producers' collectively controlling the conditions of their work and the allocation of the social product; they continued to sell their labour power to capital (Buick and Crump 1986: 29, 38). The more egalitarian distribution and reinvestment in the social infrastructure meant that the change from the colonial period could only be understood as a matter of degree, not as a launch pad for a break with the exploitation process in which workers and peasants took full political and economic control (Ayubi 1992; Buick and Crump 1986; Petras 1976a; Pfeifer 1979).

In 1959, Braverman foresaw a bifurcation in development and warned that, unless the working class collaborated in the state apparatus via political representation and participation, the whole process of egalitarian development could be reversed. This is indeed what happened in Syria in the subsequent period. The state-capitalist class that initiated progressive measures 'from above' in the 1960s was able to reverse them later, starting in the late 1980s. By invoking national security as a false alibi and aligning with the bourgeois class, the Syrian state-capitalist class reinstated market mechanisms and gave a greater role to the private sector. This expansion and revitalisation of the private sector started once the international political climate was ripe for free-market policies and openness to foreign capital – that is, after the collapse of the Soviet project. The continuance of the private sector during the state-capitalist era provided room for the bureaucratic state-capitalists to move into it and invest the wealth that they had initially accumulated through the state. Thereby they transformed themselves from a bureaucratic state-capitalist class that merely controlled the means of production into a private capitalist class that owned them. 'In most cases a purely "bureaucratic bourgeoisie" is a short-lived phenomenon: sooner rather than later, private ventures appear and the same state officials appear as the most powerful members of the ruling class' (Petras, 1976b:

23). *Étatisme* was dissolved, and what had appeared to be a social formation that manifested national peculiarities and revolutionary inclinations moved toward market-oriented development.

4 Concluding remarks

Pursuant to this outline of the state-capitalist paradigm and its associated planning, the questions arise: Why did state intervention, or more aptly *étatisme*, prevail during the postcolonial period; and why was the state tasked with the promotion of investment in industrial activity? The answers stem from the failure of the national bourgeois class to challenge the economic impediments during the postcolonial period and to fulfil the role of the agent of development. The traditional industrial bourgeoisie (such as it was) was crippled politically because of its dependent ties to the colonial power and did not act as a progressive national class committed to economic and political independence from foreign capital (Amin, 1976a; Dos Santos, 1970; Kadri, 2012c; Petras, 1976a: 432). It was this collaboration between the national bourgeoisie (known as the colonialist-bred or comprador bourgeoisie) in the developing countries with the international bourgeoisie that maintained a dependent development in the developing economies.[11] The global expansion of foreign capital into developing countries incorporated the national bourgeoisie (mainly the industrialists) into its international network through trade, joint ventures, patents, loans, and credit. This strengthened the dependency of host economies on foreign capital for financial and technical support and ensured that progressive and spontaneous national development did not take place in the periphery (Petras, 1976a: 438). Moreover, most industrial activities in the developing countries were limited to artisanry and small-scale projects (such as textiles and food processing) that satisfied the small demand from the market. Because the national bourgeois class showed little inclination to initiate a dynamic national development in the developing countries, the state undertook the job. It seemed plausible for the state to fill the vacuum and assume the task of forging a national developmental path. With a weak colonialist-bred bourgeoisie that could not challenge the economic impediments that existed, the solution to the problem of accumulation had to take place through state intervention (Turner, 1984). The state was viewed as the last barrier to subordination to foreign and colonial pressures.

> The national bourgeoisie of underdeveloped countries is not engaged in production, nor in invention, nor in building, nor labour ... because

> it is bereft of ideas, because it lives to itself and cuts itself off from the people … the national middle class will have nothing better to do than to take on the role of manager for Western enterprise. (Fanon, 1967: 149–50)

The next chapter examines social stratification in Syria. It offers an-depth analysis of class origins, evolution, and alliances that paved the way for Syria's transitions, first to state capitalism and later to a market-oriented economic structure. This helps to identify the different agents of investment that were responsible for investment decision and pattern during Syria's successive historical phases.

4
Class and State Capitalism in Syria

1 Introduction

This chapter explores, from a class-based perspective, Syria's journey first to a state-controlled or state-capitalist economic model during the Ba'athist regime of the 1960s, and later, to the market-oriented economic structure during the Hafiz Assad regime, starting in the late 1980s. It traces the origins of various social classes, the Ba'ath political party, and the Muslim Brotherhood.

Because historical conditions did not breed a strong old bourgeois class that could have pulled the economy out of its fragile postcolonial economic condition, the state overwhelmingly intervened in the market and paved the way for the formation of state capitalism during the Ba'athist era. The chapter elucidates how the radical factions of the army, composed of Ba'athist military officers, launched a coup d'état in March 1963, secured their hold on the state apparatus, and took control of the important positions in the government, thereby transmuting themselves and their bureaucratic and professional allies within the state into a bureaucratic state-capitalist class.

The Ba'athist regime introduced radical reforms – far-reaching nationalisation and land reforms that distributed land to the peasants – and endorsed socially-responsible economic measures. The state-capitalist class acted as an agent of investment and promoted Import-Substitution Industrialisation to bootstrap the shaky postcolonial economy. It was a time when the Ba'athist regime, with its secularist and egalitarian orientation, voiced the frustration of the unprivileged workers despite suppressing workers' and peasants' organisations and movements.

However, this did not last for long. Soon after Hafiz Assad assumed power in 1970, he sidelined the radical ideologies of the Ba'ath party

and gradually introduced market-friendly reforms that parted Syria from its state-interventionist past. The gradual transformation of the socioeconomic structure from state capitalism to private capitalism was accompanied by lifting of populist measures with little opposition from the grassroots level. Why there was so little resistance is explored throughout this chapter.

2 Definition of social class

Definitions of social classes are historically specific. Broadly, the meaning of class has never escaped the confines set by Marx, where a class or a social entity is defined by the relationship of its members to the means of production and the type of consciousness that pertains to this relationship.[1] Definition of a class in developing oriental formations is even more elusive, diverse, and complex (Hulme and Turner, 1990) especially when one takes into consideration the variegated and fluid nature of class structure (tribal, sectarian, ethnic) (Ayubi, 1995: 175).

In *Capital*, Vol. III, Marx grapples with his theory of class but leaves it open for further development in the last page of the manuscript. The whole system of Marxian analysis is based on the category of class and class struggle. In turn, class emerges from the relationship of its member to the means and process of production: wage workers are defined as a class because it is from their labour that surplus value is extracted by the capitalist class. However, the very concept of class for him is under-researched because it is a living category developing in real time. He sets out from the three big classes of modern society that coexist in a capitalist mode of production: wage workers, capitalists, and landowners. Nonetheless, for analytical purposes, he refines classes in line with the complexities of the social division of labour, using discrete stratification in some instances. But in the Marxian method, it is not the similarities between individuals that form the class structure under capitalism; it is the separation of the direct producers from the means of production by the wage-work relationship. Marx clearly states that apparent 'lines of demarcation' are 'immaterial for our analysis' (Marx, 1962: 862).

> We have seen that continual tendency and law of development of the capitalist mode of production is more and more to divorce the means of production from labour, and more and more to concentrate the scattered means of production into large groups, thereby transforming labour into wage labour and the means of production into capital. (Marx, 1962: 862)

The imposition of capitalism in the developing world broke up the precapitalist modes of production and engendered a process of proletarianisation whereby producers were separated from their means of production and a market of wage labour was created (Amin, 1978: 13). Unlike Europe's experience of industrialisation following primary accumulation, the capitalist system reproduced a poorer image of itself in the periphery, where dependency on the market became the rule but was accompanied by rampant poverty, high unemployment, and low productivity. The terrible cost of the periphery's incorporation could be measured in terms of the high level of human suffering, which exceeded that witnessed by the West during its process of industrialisation (Molyneux and Halliday, 1984: 18). It is this total dependency on the market that rendered even the most remote oriental formation into a weak capitalist society by means of the imposition of wage labour but in the absence of rapid industrialisation and rising wages, this deformed modernisation created huge amounts of reserve labour that eventually would create contradictions.

3 The Syrian road to state capitalism

3.1 Syria's old bourgeois class: was it an agent of investment?

Syria's colonialist-bred bourgeois class, or the old bourgeoisie, can be traced back to the Ottoman period. According to Philip Khoury, the Sunni old bourgeoisie originated from the politically empowered and rural aristocracy of the Ottoman era. The group later became the urban aristocracy under the French Mandate that further legitimised their titled hold on private property.[2] Their investment activities were concentrated in commercial endeavours. 'The major reservoir of entrepreneurship in most [Arab] countries at most times has been the merchant class' [author's emphasis] (Sayigh, 1963: 55). As expressed by Amin (1978: 10): '[t]he Arab world's periods of greatness coincide with the periods of flourishing trade.' Entrepreneurial skill was directed towards trade rather than industry (Turner, 1984: 53).[3] The circulation of capital began in money and returned to money, a process that is typical of mercantilism.

By the eighteenth century, the Near East's commercial zenith was drawn into the European trade network. The Arab merchants supplied products, such as silk, cotton and coffee in exchange for manufactured goods. The Europeans – first the Amalfians, Genoese, and the Venetians, and then the Portuguese, French, and the British – traded with the Arab Near East. For their part, the Arab merchants sought quick profits from trade. Many of these merchants also acted as representatives for

European firms (Issawi, 1955: 117–18), lacking the capacity to act independently of the colonial powers. Syrian families, such as the Sahnawi and the Khumasieh, were important traders with Europe. They established glass, sugar, alcohol, vegetable oil, spinning, dyeing ,and cement factories (Issawi, 1955: 118–22).

Industrialisation was curtailed in the Mandate period (1920–46). The colonial administration was opposed to any serious attempt to enhance industrialisation (Mabro and Radwan, 1976). The splitting up of Arab provinces of the Ottoman Empire and the creation of national borders was a blow to industrialisation (Khoury, 1987b: 25). The colonial rivalries and divisions had left their imprint on the economic landscape through the Sykes–Picot Agreement of 16 May 1916, which split Lebanon, Palestine, and Jordan from Syria. Moreover, the three major cities of the Arab Mashreq – Tripoli (the port city), Aleppo, and Mosul, which had once formed the industrial heartland of the Mashreq during the early twentieth century – were also severed from the truncated Syria. The state of Syria, as it is known today, is therefore considered a 'residual state' of whatever was left of the previous 'natural Syria' (Salama, 1987). Other impediments to industrialisation included conditions of uncertainty associated with political instability during the early colonial period. The latter obstructed productive investment and reinforced short-term rent-seeking activity in immobile property – such as land and buildings – to be the principal undertaking of private investors (Khoury, 1987b: 26). Given the uncertainty associated with weak states and intermittent wars that engulfed the Arab Mashreq, investors shied away from long-term industrial commitments.

Immediately following independence, Syria evolved as a 'free enterprise economy' (al-Ahsan, 1984: 302). Political power during the *ancien régime* was concentrated in the hands of the conservative old bourgeois class and the traditional landlords that exploited the country's resources, repressed the peasant communities through the tenancy system, and suppressed opposition (Perthes, 1992a: 207). Albert Hourani describes how these traditional classes used the *ancien régime* 'as a means of coercion' (Hourani, 1972: 71). A postcolonial private industry was established by the old bourgeoisie, the sons of the old landlords and the wealthy merchants. The industrial activities were concentrated on food processing, agricultural tools, liquid gases, synthetic fibres, and construction materials. Although the old bourgeoisie undertook investment activities in line with consumer demands, their investment decisions were primarily driven by their personal motives. They could not raise the standard of industrial production, because they were structurally

incapable of independently acquiring the significant amount of funds needed for large productive projects, given that the majority of them were small, family-based businesses. According to Perthes (1992a: 208): 'the national bourgeoisie generally connected the development of the national economy with their own economic interests' in the sense that they pushed for state policies that supported and protected their investment projects. They thereby shifted the economic resources away from infrastructural projects (al-Ahsan, 1984: 302).

Syria remained a dependent economy during the postcolonial period, bearing in mind the impasse that the break-up of the Ottoman Empire had imposed on postcolonial societies. It witnessed rapid growth in its population, high living costs, and accelerated collapse of the traditional industries accompanied by retarded development of new ones (Khoury, 1984: 531).[4] Its old bourgeoisie could not assume national supremacy nor act as an agent of investment. Instead, this class functioned as an appendage to dominant imperialism, serving foreign interests by colluding with the West and shifting capital out of the economy (Amin, 1978; Ayubi, 1995: 180–81). In short, they served foreign capital rather than national economic development (Ayubi, 1995: 180–81). They remained conservative, semifeudal, and agrarian and acted as a landowning comprador bourgeoisie that did not succeed in situating Syria on a 'capitalist road to development' (al-Hamsh, 2004: 40; Khoury, 1984: 531; Springborg, 1993: 3).

3.2 The formation of the Ba'ath party

The Ba'ath party in Syria was officially founded in April 1947, following the first party congress held in Damascus, during which the party's constitution was formed (Chouman, 2005). The founders were the two politicians : Michel Aflaq and Salah al-Din Bitar. During the first five years, the party established branches in Damascus, Aleppo, Homs, Lattakia, and even in Lebanon and Jordan. Its main political objectives included liberating the Arab world from colonialism and Western dependence to achieve human prosperity. The party therefore was nationalist and secularist. It promoted pan-Arabism that aimed at unifying the truncated Arab nations into one secular Arab nation that would embrace all Arabic-speaking people regardless of their religion.

The party's main constituency was a group of militants who originated from the rural periphery. This explains why these militants had radical leanings that aimed at improving the living standards of all Syrians (Ayubi, 1995: 259). From around 1963, the party derived its support from the Alawite sect, the Druze sect of Jabal al-Arab, the Sunni group

of Hawran, and the Sunni group of Deir Ezzor (Batatu, 1981: 339), all of which were represented in the Regional Command or inner circle of the Ba'ath Party. The leading military officers did not originate from the landless peasantry but from the small property owners.[5] For instance, the families of the Alawite ruling officers, Salah Jadid and Hafiz Assad, were owners of small land holdings (Batatu, 1985: 36).

The party's slogans were unity, freedom, and 'socialism' (*wahda, hurriyah, ishtirakiyah*). Socialism, however, was not clearly manifest in the party's programme, because the party's ideology was unclear. Rather than promoting a classless, cooperative society or free association of the producers, the party's ideology was only radical insofar as it called for anti-colonialism. It did not challenge the underlying capitalist structure or propose to abolish the main pillars of capitalism – the appropriation of surplus value through wage labour and its realisation through sale as commodities (Beinin, 1999: 21 and Laqueur, 1958: 328, 332). It is more proper to say that Syria witnessed a semblance of socialism because of its heavy-handed state intervention in the 1960s. The state, in short, substituted itself for the private capitalist class, and accordingly the importance of state planning was undeniable during the 1960s and 1970s (Sayigh, 1982: 115). With the Soviet Union still representing the paragon of state-led development, the state intervened to mitigate Western dominance. By owning the means of production, the state became the allocator of resources and the appropriator of economic surplus. In this way, it built productive capacity and initiated internally-induced economic development.

A series of military coups took place between 1949 and 1954; these culminated in the establishment of the military rule of Adib al-Sishakli. The civilian leaders of the Ba'ath Party, Michel Aflaq, and Salah al-Din Bitar, met in exile with the head of the Arab Socialist Party, Akram al-Hawrani, and decided to unite the two parties into a single organisation called the Ba'ath Arab Socialist Party (BASP) to put an end to the Adib al-Sishakli dictatorship. The party's political organisation then played an important role in the coup that overthrew the military regime (Chouman, 2005). After the downfall of the dictator al-Shishakli, political life was restored. Democratic parliamentary elections under the supervision of a judicial committee took place in 1955. The Ba'ath party won a plurality of parliamentary seats (17 seats in all) and MP Akram al-Hawrani was elected as head of parliament (Chouman, 2005).

In 1958, the party's vision and mission were realised by the formation of the United Arab Republic (UAR) or the Egyptian–Syrian Unity of 1958–61. The Ba'athists pushed for unification with Egypt because it met

popular demands for pan-Arabism. The UAR moved closer to the Soviet orbit and initiated radical reforms, of which land reform and nationalisation were the main progressive measures (Ayubi, 1995; Hinnebusch, 2001b). Syria's deepening economic radicalisation was already mixed with an internal assault on pluralism and participation in politics under the unity government. The Syrian Ba'athists expected to have voting power in the UAR federal state under Nasser. They also expected that the new federation's ideology allow for 'regional' governance – the UAR, with its pan-Arab nationalism, no longer recognised its member countries as separate states. Unfortunately, the UAR evolved into a bureaucratic dominion that operated from Cairo and rested on military control. Nasser's conditions for the federation included the elimination of all political parties in Syria. He attempted to weaken the Syrian Ba'ath party and at times repositioned and transferred high-ranking Syrian officers or even excluded them completely from political participation (Petran, 1972). Alarmed by nationalisation and agrarian reforms, the Syrian old bourgeoisie and the traditional landowners voiced their complaints about the union and solicited political assistance from Western governments. For geostrategic reasons centred on oil, the US has never wanted strong states in the non-Gulf Middle East. Unification and a stronger United Egypt and Syria is anathema to US/Israeli interests. All of this led to the disintegration of the UAR on 28 September 1961. A group of army officers carried a counterrevolution that took Syria out of the union. The conservative old bourgeois class allied with like-minded members of the armed officers and engineered a coup d'état in September 1961, which effectively curtailed Nasser's efforts to extend his nationalisation plans (al-Ahsan, 1984: 306).

3.3 Syria's middle class aspires to radical change

The Syrian educated and salaried middle class emerged during the colonial period and grew stronger during the time of Ba'athist radicalisation. It consisted of academic professionals, administrators, civil workers, lawyers, doctors, engineers, journalists, and salaried employees in the tertiary sector (banks, commerce, tourism, and other services). Khoury (1984: 527) traces the rise of the educated and salaried middle class back to the French Mandate, for which he describes its basic sentiments to transcend beyond the sphere of family and confessional group and to extend to profession, city, and nation. It benefited from the broad educational system during the postcolonial transition and later during the Ba'athist period, because even people of humble origin were able to obtain an education.

During post-independence, the Syrian educated middle class viewed the *ancien regime*, the power of the traditional bourgeois and landowning classes, as an artefact of the colonial powers. It supported state-led development and resource retention in the economy. Its frustration was reflected by its political positions of anti-Westernism and anti-colonialism. In the words of Hinnebusch (1993b: 245): 'the failure of dependent capitalism to incorporate the salaried middle class turned it against the liberal model.' This class thereby pushed for sporadic insurrectionary revolts against the postcolonial semifeudal oligarchy. It also organised trade unions and battled for better wages and political rights. Because it discredited the old bourgeoisie and aspired radical reforms, the middle class supported the Ba'ath party during the 1950s, hoping that the party would initiate radical, dynamic, and well-directed change (Farsoun and Carroll, 1978: 142). Other demands of the middle class included broader political participation, intellectual openness, and freedom of speech, all of which had been severely circumscribed by the *ancien regime*.

3.4 The lifelong opposition of the Muslim Brotherhood

The historical rival that contested the radical Ba'ath party was the Muslim Brotherhood, whose leaders acted as the 'natural spokesmen' of the Sunni community – which was anything but homogenous – because they were the main beneficiaries of the radical reforms. The Brotherhood represented the sections of the old bourgeoisie hailing from Sunni cities that lost ground to the newly recomposed ruling class during Ba'athist rule. However, peasants adhering to the Sunni sect were the social base of support of the Ba'athist regime. During the Hafiz regime, the new Sunni bourgeoisie that benefitted from gradual neoliberal reforms allied themselves with the regime.

The Brotherhood originated from the Muslim 'men of religion' who followed *Shari'a* Islam (Batatu, 1982: 14–15). The economic and political demands of the Muslim movement were consonant with the demands of the Sunni urban manufacturers and traders whose businesses were severely harmed by the radical policies of the Ba'ath party (Batatu, 1982: 13–14; Lawson, 1982: 28). The Muslim Brotherhood spoke in the language of a conservative variant of Political Islam as opposed to an egalitarian one. Its social agenda called for private property – as prescribed in the Quran – investment, 'natural incentive' for fair profit, and protection of private investors from nationalisation (Hinnebusch, 1993a: 186). It also disapproved of state farms, cooperatives ,and land reform because, according to them, these would ruin agricultural productivity. The

Muslim Brotherhood was therefore pro-capitalist and sought to Islamise the Arab nation in the name of the *umma*.

The Muslim Brotherhood was buoyed by the flow of funds from the conservative Gulf states that fuelled the international resurgence of political Islam (Abd-allah, 1983; Lawson, 1989: 19). The political defeat of Ba'athism and Nasserism after the 1973 war weakened the radical political movements and strengthened political Islam, which supported private enterprise and economic liberalisation (Beinin, 1999: 20). During the Hafiz period, the Muslim Brotherhood penetrated the traditional market – the *suq* – and aligned with the small merchants, the artisanal and the bazaar class,[6] which could not compete with the big merchants that were by-products of Hafiz's *laissez-faire* measures in the 1970s and 1980s. This alliance led to the Islamic uprising of 1982 that was brutally crushed by the Assad regime.

3.5 The role of the military

The Syrian army emerged weak from the colonial period. Syria's dismemberment after the disintegration of Ottoman Empire and the European colonial scramble were the main causes of this weakness. During the French Mandate, the French officers in charge either outranked Syrian officers or discouraged them from applying for military service (Halpern, 1962: 295). The colonial powers created unbalanced armed forces in their colonies (Drysdale, 1982b: 53); in particular, the French relied heavily on soldiers from ethnic minorities to suppress nationalist uprisings. They recruited from the minority Alawites and the Druze more than from the Sunni majority. This deepened ethnic differences, increased confessional divisions, and undermined the formation of a strong nationalist opposition (Drysdale, 1982b: 55).

Syria had no stable civilian rule after its independence. It witnessed 22 coups before Hafiz Assad took power in 1970. The army continuously intervened in the society to end social divisions. As previously discussed, there was growing antagonism between the educated middle class and the traditional classes (the landlord aristocracy and the old bourgeoisie). The workers and peasantry, who aspired to land reform, social welfare, and other socially responsible economic measures, also opposed the liberal model favoured by the traditional upper classes. The army brokered and attempted to mediate these class divisions. It used slogans like 'the rights of the masses' and the 'inevitability of progress' to broaden its social base of support and undermine the political influence of the traditional classes (Khuri, 1982: 18).

Three Ba'athist military officers: Salah Jadid, Hafiz Assad, and Muhammad 'Umran, controlled the Secret Military Committee of the Ba'ath party. On 8 March 1963, the Military Committee launched a coup against the military officers who ruled after the dissolution of the unity government between Syria and Egypt and who introduced counter reforms as a backlash against the radical reforms of the UAR. The coup was described as 'revolution from above.'[7] The Ba'athist officers did not 'retreat to the barracks' but established the National Revolutionary Council Command that initially consisted of military officers before the Nasserist military members were replaced by Ba'athist civilians (Picard, 1988: 123). They set up one-party rule (the Ba'athist regime) that intervened in civilian issues, assumed political power, and ran the economy as if it were going to stay in charge indefinitely (Abdel-Malek, 1971; Picard, 1988: 122–44).

Following the 1963 coup, military officers accounted for no less than 20 per cent of the National Revolutionary Council Command and no less than 25 per cent of the government's ministerial portfolios. Sensitive ministries, such as the Defence and the Interior, were held by military officers. Defence Minister General Mustafa Tlas stated that the Syrian armed forces would not relinquish power to civilians (Picard, 1988: 121). The regime's structure was characterised by the centralisation of political power, with the military playing a dominant role in protecting this structure with a pervasive and tightly controlling security and intelligence apparatus. Political participation was highly restricted; there was no space for multiparty pluralism. Most organisations of civil society were incorporated into the state apparatus and had no autonomous existence.

The army intervened not only in political affairs but also in economic and civilian ones (al-Hamsh, 2004: 101; Picard, 1988). This manifested an aspect of civil-military relations that received considerable attention in the literature (Abdel-Malek, 1971; Halpern, 1962; Khuri, 1982; Picard, 1988; Vatikiotis, 1972). The army extended its 'economic wing' into Syrian society and took on a wide range of projects, building houses, water pipelines, transport networks, factories, laboratories, clinics, and radio stations (Khuri, 1982: 17–21).

4 State capitalism under Ba'athist rule

During the 1960s, the Ba'athist regime introduced far-reaching nationalisation: USD 50 million worth of assets were confiscated by the state (Richards and Waterbury, 1996: 201). The state took over almost all

sectors (mining, manufacturing, banking, agriculture, transport, real estate, and trade) and this greatly enlarged public sector became the main source of revenue for the state. 'As Galal Amin explain[ed], up to the 1940s, public ownership rarely extended beyond irrigation works and public utilities. By the mid-1960s, the public sector in Egypt, Iraq and Syria had become predominant in all sectors outside agriculture, retail trade, housing and small industry' (Ayubi, 1995: 292).

During 1964–65, the government fully or partially nationalised more than 120 industrial establishments (Perthes, 1995: 38). The public sector's share in industrial production rose from 25 per cent to 75 per cent (Richards and Waterbury, 1996: 201). As a result, many of the old industrialists left the country while those who remained were prohibited from setting up new business ventures or expanding their existing ones. They shifted instead to trade and fast-earning income activities (Perthes, 1995: 110). The Syrian merchants however were less affected (Perthes, 1992a: 209). Although the private sector was heavily curtailed, it was not completely demolished and the old bourgeoisie managed to survive the nationalisation phase of the 1960s by reducing their businesses and investing only in bazaar, handicraft, and artisanal activities.

Land reform was also enacted, uprooting what remained of the liberal model of the *ancien régime* – a time when 60 per cent of the rural population did not own any land (al-Ahsan, 1984: 302). Nearly one third of all agricultural land was expropriated and distributed to the landless farmers (Hopfinger and Boeckler, 1996: 184). Land reform imposed limits on the extent of private landholding, prevented the displacement of farmers from the land, introduced the first law for cooperatives, and organised agricultural relations between the landlord and tenant by specifying each party's share of the crops (Chouman, 2005).[8] Despite its limitations,[9] Ba'athist land reform was undoubtedly progressive to the vulnerable peasantry, because it enabled them to acquire land and improve their living conditions (Batatu, 1999).

The Ba'athist regime introduced radical economic measures to block any chance of relapsing into the commerce-centred post-colonial model. Prices were administered and production costs for necessities were subsidised by the state. The regime enacted an import-substituting industrialisation (ISI) programme that favoured the development of national industry. Its purpose was to retain and channel resources to rapid and broad-based industrialisation. It set up a system of multiple exchange and interest rates and restricted imports by erecting quota and tariff barriers. It protected local industry, and where possible, satisfied local demand by local production. The Ba'athist regime aimed at maintaining economic

emancipation from foreign influence. It restricted foreign companies from entering the country and exploiting its mineral resources; foreign capital's participation was limited to servicing contracts (Perthes, 1995: 42). Fiscal and monetary policies were geared towards replenishing the successive economic five-year plans.

In sum: through their control of the state, the Ba'athist military officers fully assumed the role of agent of investment. Their class, the state bourgeois class in control of the process of capital accumulation, calibrated with their allies in the working class and peasantry the political and social relationships needed to ensure social reproduction. Radical reforms increased even further with the second Five-Year Plan of 1966–70. The state and its managers held complete control over investment and investment decisions. The private sector only controlled 5 per cent of industrial investment (Ayubi 1995: 358). In infrastructure, the state built roads, bridges, and telecommunication networks. In agriculture, it improved rural electrification and introduced new irrigation projects (Picard, 1988: 139). In manufacturing, public investment projects were mainly in textile and food processing industries. Other manufacturing production included farm production, batteries, bottled mineral water, and simple military supplies and equipment (Hawwa, 1993: 85). The expansion of public investment, specifically in agriculture, industry, and infrastructure, bolstered the economy's productive capacity and enhanced internally-induced development. Buoyed by capital inflows from neighbouring countries due to Syria's role as 'front-line state' with regards to Israel (geopolitical rent), total public spending increased from S£ 561.8 million in 1964 to S£ 10.6 billion in 1978 (Drysdale, 1982b: 68). Public investment amounted to more than 60 per cent of total government spending during the 1970s (Ayubi, 1995: 293–95). Industrial output grew at an annual rate of 11.6 per cent between 1970 and 1978, as compared to 5.6 per cent between 1960 and 1970 (Chatelus and Schemeil 1984: 254).

Evidently, the socialisation measures involved the provisions of a social security system and free government services, in addition to subsidised housing, free education and health care. Largely doing away with colonial-era deprivation, these social welfare services gave many citizens the means to satisfy their basic needs and, in so doing, raised the standard of living. The regime raised wages in the public sector and enacted labour legislation that secured employment and protected workers against job dismissal (Longuenesse, 1996: 115).[10] The middle class gained a lot from these populist measures. The number of the wage workers in the public sector increased from 160,000 in 1970 to 370,000 in 1980. Other figures

show that the number of state employees increased from 34,000 in 1960 to 331,000 in 1979 (Batatu, 1985: 39; Beinin, 1999: 19). The middle class was therefore politically quieted by these social guarantees and welfare measures. GDP per capita grew at an annual rate of 3 per cent during 1964–74. This rate contrasts with the average 1 per cent annual rate recorded during 1980–2000, a period characterised by phases of gradual economic liberalisation (World Bank, 2014).

Despite blocking the political participation of the workers and peasants, the Ba'athist regime incorporated the aspirations of both the middle class and the working class. It kept its ear to the ground, tapping working-class concerns and addressing some of their livelihood concerns with socially responsible measures. However, the rights that it provided to the working class in terms of services and higher consumption were manifest once again as a top-down process rather than as the fulfilment of legitimate demands voiced by the workers and met by the authorities. The whole purpose of the regime was to limit vociferous demands from spreading and fuelling dissent.[11] The regime recognised the necessity to maintain tight control from above by maximising its social constituency below. It created the General Federation, which incorporated trade unions, syndicates, peasants, craftsmen, women and student's clubs, writers, academics, and journalists so as to grasp political control and maintain social order (Drysdale, 1982b; Sadowski, 1988: 167). In this forced assimilation of civil-society organisations and sectors into state-controlled organisations it paralleled Italian fascism.

One has to keep in mind that the rise of Israel as a Zionist colonial settler state in Palestine and its victory over the Arabs in 1948 was still fresh when the Ba'ath took the reins of power. The Ba'athist phase was an epoch culminating in radical economic changes that were strongly influenced by the exigencies of potential conflict on the Israeli front. The Ba'athist regime needed to consolidate its social base into a cross-class national front. Its 'socialist' policies were not only an instrument of political control but also an additional prop in the national security structure. Certainly, the gains awarded pauperised peasants from land reform gained mass support in the rural areas for the regime stability and quelled the challenge from the old oligarchy.

However, like much of twentieth-century *soi-disant* socialism, the Ba'ath model was not genuinely socialist. Syria's class structure remained capitalist, with surplus value accruing to the state-capitalist class through its control of the means of the production and its regimentation and exploitation of labour, albeit at better rates than under colonialism and the old bourgeoisie. Nor was there any attempt to undertake a socialist

transition, because this would have meant actually empowering the workers and peasants to collectively run both social production and the state. But limiting workers' participation in the political process in the long run strengthens neither regime stability nor national defence. In socialising (transitional) though still state-capitalist societies, workers' freedom is a building block of stability and progress. Not only was the labour process in Ba'athist Syria both capitalist and repressive, but the goal of economic activity was to increase output, whose distribution was tilted in favour of the state bourgeois class, which gained privileges through its control of state office. In this situation, where state-managed economic and political relationships are authoritarian and oligarchic rather than popular-democratic, security threats to the regime cause it to tighten the regimentation of both political life and labour process. Simply put: As the state bourgeoisie comes under pressure, it pressures the working class. National-security threats create fears at all levels that are exploited both by factions supporting working-class interests and at the same time by state-bourgeois factions seeking to promote their own privileges. In hindsight, the way the Syrian working classes were deprived of democratic participation in the political process created room for Islamists to occupy the ideological space that was vacated as the socialist project was rolled back. Islamisation is in essence not submission to god, but the unquestionable acceptance of the rule of capital. So the factions that won in the end are those that promoted capitalism at any price.

4.1 The state-capitalist class in control of the state

The state bourgeoisie or the state-capitalist class in Syria constituted the highest echelons of the state apparatus (Longuenesse, 1979: 8–9), consisting of the Regional Command of the Ba'ath party, the provincial governors (*muhafizun*), the government ministers and deputy ministers, and the highest-ranking military officers (Perthes, 1995: 114). In the 1960s, the Regional Command of the Ba'ath party was composed of members of various sects from across the country (Rabinovich, 1972). A close examination of the Syrian cabinets and the Regional Command after 1970 shows an increased representation of Alawites, a minority sect group from the rural area (particularly from the Latakia region), indicating that military officers at the heart of the regime drew their strength from that sect (Lawson, 1989: 15; van Dam, 1981: 100).

During the Hafiz Assad regime, the officers who were decisive in holding together the political structure were Hafiz Assad (the late President of the Republic and the Commander in Chief of the Armed

Forces); Rif'at Assad (the Commander of *Saraya al-Difa'* or the Defence Units); Jamil Assad (the Commander of a special unit of *Saraya al-Difa,'* concerned with the security of the Alawite community); and Adnan Assad (Commander of *Saraya al-Sira'* or the Struggle Companies) (Batatu, 1981: 331). The Defence Unit and Struggle Companies were tasked to protect the regime. Interestingly, Adnan was the cousin of the president, and Rif'at and Jamil were his brothers. When Hafiz seized power in 1970, he promoted new officers, especially those close kin to him and of the Alawite tribe, to reinforce loyalty within the upper military ranks (Galvani, 1974: 9–10 and Sadowski, 1988: 162–64). Many traditional Ba'athists who joined the party before the 1970s described the transformation of the party during the Hafiz regime as disappointing (Sadowski, 1988: 160).

The ruling Alawites worked in close cohesion to safeguard the regime from any political threat and tightened their grip over the power structure through a coercive apparatus (Picard, 1985). Key family names from the Sunni sect included Khaddam, Tlas, and Ahmar, who occupied important positions in the regime. The Sunni state bourgeoisie, however, drew their authority from the President and had no power base of their own (Batatu, 1981: 333). They, along with the Alawites, formed an informal organisation, known as the *Jama'a* – literally meaning the group or the alliance – that monopolised the highest positions in power (Sadowski, 1988: 164–65).

By managing public institutions, the state bourgeois class accumulated wealth through legal and illegal procedures. For example, Rifat Assad, through his command of military units and his vast array of civilian clients, acquired a huge fortune. He colluded with the Sunni new bourgeoisie in Damascus and Aleppo to run fast-earning business activities. He granted the wealthy merchants exemptions from trade restrictions and from administrative procedures for valuable commissions. He supervised imports from Lebanon and controlled his business there using his personal militia (Sadowski, 1985: 7). He came to symbolise the worst forms of abuse of public office, which had escalated mass hatred and forced the regime to expel him in 1984. Other important political names included Bahjat Suleiman (the head of internal security who served until 2005) and Muhammad Haydar (the ex-deputy Premier of economic affairs) who joined the ranks of the more malleable new bourgeoisie – especially merchants. These military officers had interests in merchant business; in this way, they gradually created a new hybrid entity with the Damascene merchants that was known as the 'military-mercantile complex.'

4.2 The rise of the new commercial bourgeoisie

During the Assad rule the upper strata of the *nouveaux riches* held the centre of economic power (Robinson, 1998: 159). This class was mainly composed of the commercial bourgeoisie. It was the by-product of state capitalism because it developed in the restrained private sector that remained active in commercial activities during the Ba'athist state-capitalist period. The new commercial bourgeoisie evolved under the purview of the state and benefited from state-bestowed monopolies.

During the Ba'athist regime, the new commercial bourgeoisie acquired their fortunes by running business deals with the state-run monopoly enterprises. They contracted with state monopolies and supplied them with spare parts. They obtained contracts to build pipelines, motorways, and hotels and to modernise Syria's telephone network. Through such contracts, they obtained profits far beyond what is normal under regular business transactions. They distributed their surplus goods on the growing black market and in contraband trade (Lawson, 1989). They also worked as representatives or agents for the state monopolies when the latter traded with international markets, even with the former USSR and the East European markets. They acted as subcontractors between the state monopolies and foreign firms to ensure contracts for industrial and infrastructure projects (Perthes, 1992a: 214). As a result, the new commercial bourgeoisie competed to obtain contracts with the public sector, because doing business with the state generated guaranteed returns (Perthes 1992a: 214).

During the Hafiz and Bashar Assad regimes, the new commercial bourgeoisie evolved to become a hybrid of the sons of the Alawite elites and the Sunni businessmen; especially the big merchants (Longuenesse, 1979). Other constituents included the petty bourgeoisie (bazaar class) and the wage-earning middle class, such as the Sief brothers (Hinnebusch, 1995: 314). Some figures from the old bourgeoisie also resurfaced and benefited from Syria's economic liberalisation. Family names such as al-Shallah, al-Sabbagh, al-Nahhas, and al-'Attar accessed the private sector and undertook commercial types of activities, mostly in tourism and transport (Perthes, 1991). For instance, Saeb al-Nahhas, an important local agent for auto companies, invested in the transport and tourism sectors. He was also a partner with Gulf businessmen in a few international banks and investment companies (Hinnebusch, 1995: 314). Other examples included the tycoon Mustafa al-Aidi – previously imprisoned by the radical Ba'ath party – who undertook profitable investment activities and amassed fortunes from aircraft commissions

that were later invested in the Sham hotel chain in Damascus. Moreover, he was able to ensure lucrative contracts in the petroleum sector. All along, the very formation of the *new class* and its activities remained highly dependent on the ruling elites, thereby representing the first line of defence for the regime. As the regime expanded its protection to the big merchants, the latter aligned with the ruling elites against the Muslim Brotherhood (Bahout, 1994: 75; Lawson, 1997: 11). The new commercial bourgeoisie therefore became the main line of support to the Hafiz and Bashar regimes.

4.3 The class aspect of Syrian workers[12]

For the purpose of elucidation, the working class is generally defined as the class that does not own the means of production and that sells its labour power for wages. Since the 1970s, the political salience of the working class in the Arab World began to be reconfigured at a lower point, following the gradual transition of economic structures from state-controlled to market-oriented development (Beinin, 1999). The neoliberal agenda backed by the Washington Consensus eliminated workers and peasants as social categories altogether.

As noted by Beinin (1999), a salient literary manifestation of this social tendency and inclination was reflected in Richards and Waterbury's (1996) *A Political Economy of the Middle East*. While the first edition of the study included the subtitle *State, Class, and Economic Development*, the second edition did not. The conceptual framework of the study was redesigned so that the word 'class' was removed and replaced by the term 'social actors.' What could these changes signify? According to Beinin (1999: 22): 'the main task in this context is to avoid asking: Are there structural contradictions in capitalist economies, and in whose interests are such economies most likely to operate?' It follows that income inequality, declining purchasing power, and deteriorating living conditions of the working class tend to disappear from general socio-economic analysis.

The history of Syria's working class is rarely examined in the literature; except for Abdallah Hanna's book which can be considered the first attempt to explain the evolution of Syrian workers and their movements since 1945. Hanna (1973) explains that the process of social differentiation (identity-based) and proletarianisation of labour in Syria slowly began during the French Mandate and picked up speed again under the Hafiz and Bashar Assad regimes. As the countryside fell under the market's *diktats*, dependency on the market prevailed and determined the conditions of life for all Syrians. No enclaves escaped the market's

reach, and the capitalist wage-work relationship came to dominate the labour process (al-Hamsh, 2004; Khoury, 1987a).

For all that, development in Syria was freed from colonial constraints and was indeed an improvement on previous conditions. The first ten years of post-independence were marked by an increased number of private small-scale and traditional industrial firms that recruited workers from rural backgrounds. Workers were employed in textile and food production factories in Aleppo and Damascus (Longuenesse, 1985: 18).

In the 1970s and 1980s, most workers were of rural origin (Perthes. 1995: 95). By both incentives and by expulsion factors, such as the enclosure of common land, the growth of the market drove the typical patterns of rural-urban migration. With the slow rate of decent job creation under the Hafiz regime, rural migrants found more jobs in the informal sector, where working conditions were precarious and wages low. The double impact of imported labour-saving technology and the decreasing share of industry lessened the chances for migrants to be hired in higher-productivity, better-paying jobs. Many rural migrants from the countryside became self-employed as street vendors, selling small items such as cigarettes, smuggled goods, or lottery tickets (Perthes, 1995: 96). One might describe this subcategory of the working class as 'semi-proletarian' to benchmark it against the Western proletariat. However, as argued by Perthes (1995: 99), the economic conditions of this group are not as devastating as to be categorised as lumpenproletarian; Perthes defines the 'semi-proletariat' as 'those whose permanent unemployment can often be interrupted by temporary engagements, and secondly, self-employed sales' (Perthes, 1995: 99).

Another subcategory of the working class is the peasant-workers whose income from the informal sector is highly unsteady and whose subsistence from their rural backgrounds contributes to their livelihood (Perthes, 1995: 96). It is mainly the unsteadiness of income earned in their informal-sector market activities that have pushed these peasant-workers to maintain the strong ties with their families in the periphery. They have used these close family links as additional means of social support in case of loss of wage income and hence made use of agrarian subsistence. This could mean someone who cultivates his land during the day but works as taxi driver during the evening, or else someone who works as a street vendor during one season and cultivates the land during another. Conversely, although more and more peasants became wage workers following market openness and land counter-reform, they have continued to work occasionally in agriculture (Longuenesse, 1996: 114).

It is really impertinent to use the term 'lumpenproletariat' in the context of Syria. The notion was invoked by Marx initially to denote the section of the working class that lacks the material grounding for historical agency – 'a passively rotting mass thrown off by the old society' as he and Engels describe it in the *Communist Manifesto*. In Syria, the people that are often termed lumpenproletarian are really the Lazarus class, if one were to use Marx's language. Workers in poverty-level employment in the informal sector, or what Perthes terms the 'semi-proletariat,' comprise nearly half the rank and file of the Syrian labour force. Their productivity is low and their wages are also below decent subsistence level. In counties where minimum-wage employment meets the basic necessities for workers, it is understandable to use the standard ILO method in measuring employment. The standard ILO question when measuring unemployment asks if the surveyed had worked an hour for a wage during the reference week. The implication is that any employment at all would suffice for a living wage. In Syria, it would take many more work-hours at very low informal sector wages, and yet subsistence would still be below the decent minimum. That is why 'unemployment' is also a meaningless concept in poverty-stricken formations such as Syria (Kadri, 2012a).

4.4 The delinking of the working class from the political process

In typical fashion of one-party rule in the twentieth century, the working class was not politically empowered in the state. The Ba'athist military officers who set up one-party rule through a 'revolution from above' did not allow the working class to acquire political representation in the state apparatus or participate in the political decision making (Ayubi 1992). The Ba'athist regime allowed no space for pluralism or multi-party participation. It equally repressed the left and the right – i.e., the traditional oligarchy and the working class and peasantry.[13]

These repressive blows enabled the state bourgeoisie to secure their ironclad control of the state apparatus and suppress all other classes. For example, the regime did not hesitate to put down by force the poor peasants who launched an uprising in the Ghab district in 1969 over the increasing debts owed to the Agricultural Bank (Batatu, 1985: 36). As a result, the working class and peasantry did not develop into a radical social force. They did not own the means to self-defence nor could they defend their handed-down gains. When the doors for liberalisation opened at a later stage, many of the gains were reversed without much opposition from below, until of course things came to a head in the Arab Spring.

In one of her articles on the Syrian working class, Longuenesse (1985: 21) proposes that it was unlikely that the Syrian working class would organise collective labour action and that workers instead resorted to 'individual solutions' because Syria's capitalism is weak and because its industrial production is still nascent. This duality invoked by Longuenesse (1985: 21) is quite misleading, for Syria differs from other countries, not in the fact that its capitalist mode of production is weak or that it is more feudal and less capitalistic, but in the more coercive measures that were imposed by the Syrian regime against the labour movement. For instance, when a large segment of the Sunni urban working class mobilised against the regime during 1978–82, they were put down savagely. During that period, mobilised social forces turned to Political Islam as an alternative movement to challenge the regime through violent confrontation. The armed conflict reached its peak in autumn 1982, when the northern and eastern sections of the city of Hamah were completely levelled by the Hafiz regime. The Muslim Brotherhood, along with other opposition leaders and dignitaries were victims of the regime's military repression. Doctors, lawyers, and other professionals were also assassinated in their homes in Hamah province (Michaud and Paul, 1982: 30). One ought to note that Amin (1978: 3) states that feudalism in the Arab region 'if it ever existed [is] long deceased.' Likewise, it is not the ratio of rural to urban inhabitants that determines whether a formation is capitalist or not; it is the extraction of surplus value from waged labour. Hence it is inappropriate to accuse the Syrian working class of a lack of ability to initiate collective action, especially given that it had fought a national liberation war. Individual action as postulated by Longuenesse (1985) was not a characteristic of resistance because individuation rarely constitutes agency. The history of Syria is a history of organisation, political parties, and class action that led to the betterment of living conditions in the post-independence phase. Earlier, radical ideologies, such as nationalism, pan-Arabism, and anti-imperialism captured workers' consciousness and helped them to unite and participate in national struggles in the Mandate period (Hanna, 1973). Inflating the role of individual political action is unwarranted and can only emerge as a concept because of collective defeat; it can apply to any defeat condition.

5 The Hafiz Assad regime (1970–2000)

The Arab military defeat in the 1967 Arab-Israeli War was a watershed event that weakened the Ba'ath party's rank and file. Political strife

spiralled within the Ba'ath party's political wings and against the leadership. The army gained ground at the expense of the ruling party. The party unsuccessfully tried to bring the army under its control, while the latter refused subservience. On November 1970, then-Minister of Defence Hafiz Assad carried out a decisive military coup that shut down all internal opposition. He successfully purged his rivals and put the army under his control. The coup allowed Assad to wield absolute control, sideline the Ba'ath party, and begin the process of co-opting civil society. He eschewed the radical ideologies of the Ba'ath that were initially introduced by Michel Aflaq and Salah al-Din Bitar. His so-called 'Corrective Movement' served regime security.[14] The Ba'athist hope for deepened 'socialist' transformation of the economic structure receded under the realities of the 1970s. From that time on, the Ba'ath party became a means for propaganda and mobilisation in the hands of increasingly narrow Alawite military circle. In short, it became the subordinate instrument of the regime's *raison d'état* (Salama, 1987: 162–66).

Various anecdotal names, such as the 'presidential monarchy' (Hinnebusch 2001a: 67–72), 'absolute presidency' (Perthes, 1995: 139), and 'Suriyah al-Assad' (Perthes, 2004b: 11) appear in the literature to portray the authoritarian rule of the Hafiz regime. The regime indeed became much more centralised, hierarchical, and repressive, with the military playing a dominant role. The intelligence services (mukhabarat), the main instrument of control that monitored day-to-day activities, became the most powerful institution during the Hafiz era. The service maintained a vast network of agents and informers. Hafiz kept a firm grip over the state apparatus as he became the puppeteer pulling all the strings of power. He and his brother Rifat (before the latter's dismissal) were the ultimate decision makers. Perhaps, needless to say, given that these points are made ad nauseam in the literature, Assad could appoint and dismiss the cabinet, deputies, government ministers, judges, and other senior officials, dissolve the parliament, and literally do as he wished (Perthes, 1995: 139 and Olmert, 1988). For anyone who has the slightest knowledge of Syria, these comments would be too obvious to state. The mukhabarat state, composed of several security and intelligence apparatuses, kept an eye over regime security as well as each other's behaviour. This was a leakproof system.

Hafiz's regime inhibited the institutional autonomy of state agencies. It transformed all organisations of civil society into appendages of the mukhabarat security apparatus and incorporated them into the authoritarian structure (Perthes, 1995: 140). Trade unions and the farmers' unions, whose autonomy is central to ensuring that working people's

concerns are conveyed adequately into state deliberations, were stripped of their autonomy. Nearly all progressive socialist parties were compelled to join the Progressive National Front as puppets of the central authority (PNF).[15] According to one anecdote, the Syrian Communist Party was in such a lackey position that it had to state under its logo 'owned by the Syrian Ba'ath Party.'

Until the mid-1980s, the middle class was the primary social base of support of the Assad regime. However, its members frequently expressed criticism of the regime. In 1980, a few outspoken lawyers and other educated professionals, with the help of their unions, pressured the regime to introduce some degree of the rule of law. The regime got rid of some trade union executives and imprisoned others (Perthes, 1995: 105). It was during the crisis of the mid-1980s that the already poorly paid government employees were severely harmed, as public wages could not keep pace with rising inflation. The regime therefore lost much of its legitimacy and credibility within the middle class, who resented the regime's policies of gradual liberalisation. Expressions of this resentment were met with coercive measures from the regime's side to secure the regime's security.

The 'presidential monarchy' and its associated class, weakened as they were as a result of serious war defeats, consolidated their class rule by resorting to sectarianism, especially the pinning of regime security on the Alawite-sect army units that were loyal to the president. Some authors, like Sadowski (1988) and Perthes (1995), back away from describing the Assad regime as sectarian, basing their argument on the proposition that the Sunnis, like the Alawites, occupied important positions in the inner circle of the Assad regime. Social benefits were also granted to the Sunnis and the Alawites equally. However, this proposition misconstrues the nature of class. A class is a social relationship that could not conceivably be composed of a single sectarian group, particularly in a county which is multisectarian. The class in power and its representative regime employed the colonial heritage of confessionalism – a structure that was erected by the French colonialist within the military – to bolster the security and the core bodies responsible for safeguarding the Hafiz regime. Sectarianism was present but as a means to an end. The security bodies of the regime consisted mainly of Alawites, and concerns about this overwhelming hold of the Alawite sect were voiced by local analysts such as Subhi Hadidi (2010b) and Tha'er al-Nashef (2010). A close examination of the sectarian background of the military officers who were appointed in the Regional Command of the Ba'ath party reveals a similar pattern of pro-Alawite bias under both Hafiz and Bashar

(van Dam, 1981: 52 and Gambill, 2000b and 2002). Political tensions, meanwhile, made the confessional divide more palpable. The Muslim Brotherhood increased its military actions against the regime during 1977–82, until its supporters were ruthlessly suppressed by the regime in the 1982 Hamah massacre.

The Hafiz regime maintained the façade of a legitimate institutional set-up, but its components were in reality completely powerless. The cabinet, the Parliament, the Ba'ath party, the PNF, trade unions, women's organisations, and any other form of social organisation were skeletons of genuine, independent institutions of government and civil society. As earlier noted, the consensus is that the real decision-making process was in the office of the President and his Alawite clique (Batatu, 1981). As argued by Perthes, it is euphemistic to claim that Syria is 'a state of institutions,' because 'the role of existing institutions [was] more limited than their names might suggest' (Perthes, 1995: 206–07).

In retrospect, the post-uprising survival of the Bashar regime is proof of the cohesion of the Alawite sect, its control of the army, and the allegiance of the new Sunni bourgeoisies to the regime. However, the professionalisation of the Syrian army and the strength and mobility of certain loyal army units were the real backbone of the regime's endurance in the early stages of the uprising. At later stages, or more recently, the implicit support of China and the open backing of Russia and Iran have bolstered the regime's position. Syria, unlike Tunisia and Egypt, is a strategic post that has not fully fallen into America's orbit. As such, comparisons to those countries are sometimes impertinent because the fall of Syria would weaken Iran and its backers (China and Russia) in the Gulf. That fall would shift the global power structure considerably in favour of the US and its allies. The consequences are too gloomy to contemplate.

6 Twilight of state capitalism

Hafiz was known for his pragmatism, and unlike Anwar Sadat, he opposed the latter's strategy for complete and abrupt economic liberalisation. As soon as Hafiz assumed power, he started to introduce piecemeal market-friendly reforms that laid the foundation for a broader and deeper market expansion starting in the late 1980s. Since the private sector was not completely demolished during the heavy-handed state interventionist past, it acted as a stepping stone for the state-capitalist class to pursue market-friendly reforms. Following the change in international political conditions in the late 1980s, the dictates of the neoliberal

paradigm and its associated profit-based resource allocation mechanism carried more weight. The Hafiz regime broke away from Ba'athist radicalism and its ISI programme and replaced them with economic strategies that promoted market-led economic growth. It enacted structural adjustment policies that 'streamlined' the public sector, revitalised the private sector, lifted protections from local industry, liberalised capital and trade accounts, and promoted foreign investment and exports. It was a period characterised by gradual erosion of state capitalism and its associated economic planning and centralised bureaucracy that directed resource allocation.

The transition from state capitalism to private capitalism, however, was accompanied by reversing the socially progressive measures that were beneficial to the more marginalised segments in society. The government imposed austerity measures to shrink budget expenditure and as a result suppressed wages, decreased its expenditures on health and education, and gradually lifted state subsidies on food and necessity items. Laissez-faire policies were therefore socially deficient, representing a frontal attack on the living standards and welfare conditions of the working class and peasantry and accentuating social unrest (Alami and Karshenas 2012).

The grassroots, who were the main beneficiaries of Ba'athist radicalisation measures, could not obstruct the gradual lifting of populist measures that accompanied the deepening of neoliberal reforms. The working class was not allowed to develop into a strong and united social force. Instead, because of Ba'athist authoritarianism, it had remained weak and fragmented since the 1960s. Trade unions and other social organisations and movements had relinquished their autonomy to the state edifice as they were transformed into quasi-corporatist institutions, largely integrated into the state machine (Longuenesse, 1996: 121; Perthes, 1995: 99, 140). Moreover, labour representatives became mouthpieces of the government, and trade union executives played more of a managerial and bureaucratic role than an oppositional one (Haddad, 2004: 69, ft.20). The regime also repressed workers' collective action via an apparatus of repression. Hadidi (2010b) recounts the brutality of the Hafiz regime by referring to the tens of thousands of prisoners of conscience, the missing persons, the victims of torture, and the people killed during armed confrontations between the regime and supporters of the Muslim Brotherhood. Hadidi quotes Riad al-Turk who described the Assad regime as the 'kingdom of silence.' The regime used unprecedentedly brutal measures to wipe out all forms of opposition and installed fascist-like 'phalanges' within civil society.[16]

One may conclude here that state capitalists embraced a market-oriented economic structure in the very same way that they had embraced a state-controlled economic structure, i.e. without allowing the grassroots to participate in the political process. It may be useful to recall that Braverman (1959) warned that, unless the working class took part in the making of 'socialism,' a reversal in the process of egalitarian development could take place.[17] Radical measures were later removed 'from above' in the same way as they were introduced 'from above' when the political interests of the politically empowered state-capitalist class changed. Given the hostile and repressive measures imposed by the regime, the earlier radical reforms were lifted without much opposition from the weak, atomised marginal segments.

Although a transition to 'socialism' was not completed, especially since the working class was kept at the margins of political life,[18] the Ba'athist radicalisation experience led to better welfare-enhancing and developmental outcomes, compared to the private capitalist model that replaced it during the days of Hafiz and Bashar. When the social contract – which in essence had subordinated the working class and peasantry politically for decades in return for the state's delivery of basic services – was shattered, social hardship was exacerbated, and this eventually ignited the political revolt in 2011.

7 Concluding remarks

In the presence of a weak colonialist-bred bourgeoisie that could not challenge the economic impediments of the postcolonial period, the process of accumulation in Syria had to take place through state intervention. Through a series of nationalisations and confiscations, the state gained the necessary legal and economic means of ownership and became the main agent for economic and political decision-making. Seen from a class-based perspective, the Ba'athist military officers undermined the political influence of the traditional classes, assumed the role of the agent of investment and took direct responsibility for the process of capital accumulation. They pushed for state-led investment to enhance the economy's productive capacity and placed Syria on the path of national economic development. Far-reaching nationalisation, radical land reform, and other populist measures were promulgated to enhance social welfare and consolidate the regime's social base of support. The Ba'athist regime is therefore describable as state capitalist.

With the army's 'revolution from above' that was carried out without the insurrection of the working class, a few military officers with

egalitarian inclinations situated themselves at the pinnacle of the state apparatus and set forth a socially progressive structure. The institutions of civil society, such as trade unions, professional associations, and women's and students' clubs were subordinated to the state and did not hold political power in themselves. The extent of political coercion and repression later provided space for the state bourgeoisie to reverse the radical policies that were introduced in the 1960s with limited opposition from the working class and peasants. The working class was poorly organised, did not hold political representation in the state apparatus, and thereby could not defend the social gains extended to it during the Ba'athist regime. Once international political conditions paved the way for neoliberal transformation, the Hafiz Assad regime managed to reverse the earlier social dynamic of the Ba'athist model.

The next chapter will examine the cautious economic liberalisation that was undertaken by the Hafiz regime to meet the political interests of the state bourgeoisie. It will discuss how the regime undertook economic reforms and introduced trade and investment liberalisation to reward the merchant constituency of the new bourgeoisie that aligned itself with the regime against the Islamists. The alliance of the state bourgeoisie with the commercial bourgeoisie formed a new agent of investment that pushed for similarly new patterns of investment.

5

Investment Liberalisation during the Hafiz Assad Regime: Moving to a 'Freer' Market

1 Introduction

This chapter examines the piecemeal economic liberalisation or *infitah* endorsed during the Hafiz Assad regime (1970–2000).[1] These reforms were characterised by being gradual, home-based, and tailored by the state bourgeoisie. The political economy of these selective reform measures is here explained. Although there were times when economic concerns pushed the regime toward market liberalisation, political considerations held primacy in the timing and the extent of the reforms. They were conducted under the decisive control of the ruling elites, preventing threats to the core power structure. This chapter will also discuss how the Hafiz regime maintained Syria's slow pace of economic liberalisation by making use of the Lebanese free-market system that acted as a 'back-door' economic liberalisation valve for Syria.

It was through *infitah* that Hafiz called on the new commercial bourgeoisie that formed the regime's social base of support to trust his pragmatic moves. More important, he served the class interests of the state bourgeoisie who were keen to undertake private investment projects on their own or with the new commercial bourgeoisie. By aligning with the new commercial bourgeoisie, the state bourgeoisie formed a new agent of investment that became responsible for investment decision making and its pattern during Hafiz's rule. Piecemeal economic liberalisation culminated in investment reform Law No. 10 of 1991, which paved the way for Syria's transition from state capitalism to private capitalism. Because Law No. 10 did not prioritise the productive sectors, the new agent of investment pushed for commercial rather than industrial investment

in order to ensure quick returns. Concomitantly, the state bourgeoisie made use of market liberalisation, especially Law No. 10, to gradually transmute themselves from state capitalists to private capitalists.

The Syrian regime under Hafiz never conceded that Syria was a 'socialist society on the road to capitalism' (Sadowski, 1985: 6). Or, as expressed by Molyneux and Halliday (1984: 20): 'the anti-capitalism of…Hafiz al-Assad [did] not promise emancipation from capitalism but rather the replacement of rule by one capitalism with another.' It was the combination of changing historical currents, the dictate of laissez-faire neoliberal ideology, and the willingness of the state bourgeoisie to become private capitalists, that together set the stage for the economic transition to take place. Regional and international developments at the time did not make it any easier for Syria, whose economy relied on financial inflows (geopolitical rent) during the 1970s and 1980s. The collapse of the 'Soviet project,' Soviet treaties, and the Soviet market pushed the Syrian regime to align itself with the winners of the Cold War. Once regional and international political conditions were ripe, the state bourgeoisie parted with its Ba'athist state-interventionist past and deepened market-friendly reforms, of which investment Law No. 10 was a major measure that is explored in the last section of this chapter.

2 Overdetermination of politics in Syria's movement toward *infitah*

The transformation from a state-controlled to an open-market economic system in which the private sector plays an increasing role is known as *infitah*. *Infitah* is change in economic policies that revives private sector activities, curtails the public sector, and opens up the economy to regional and international markets. It is frequently but superficially viewed as a response to economic problems arising from the statist or state-controlled economy, such as low levels of productivity, resource misallocation, institutional weakness, debt build-up, and foreign exchange shortages. Many economists argue that whenever state-led and internally-induced investment deteriorates, the potential opportunities of private investment push policy-makers to pursue *infitah* policies (Richards and Waterbury, 1996; and Hopfinger, 1996). Authors like Perthes (1995: 15), Polling (1994: 17), Sukkar (1994), and Hawwa (1993: 84) argue that Hafiz Assad pursued market liberalisation because of the economic crisis in the mid-1980s. This explanation is incomplete. The Syrian regime did not rely exclusively on economic logic. Rather, the interplay of political and economic considerations determined

the transformation (Niblock, 1993: 57 and Hinnebusch, 2001b: 114 and Heydemann, 2000). In fact, in Syria, political factors (internal and external) held primacy in the degree, timing, and even targeting of economic reforms. Economic considerations were subordinated to political rationality in Syria, basically to the regime's *raison d'être* or its security and stability. Only when economic problems presented a threat to the regime's stability did the state bourgeoisie take measures to safeguard the regime (Heydemann, 1992: 17–32). It will be discussed throughout the chapter how both internal and external political factors influenced Syria's gradual move toward the market economy during the Hafiz Assad era. Since the 1970s, economic liberalisation in Syria has been conducted in a selective and tailored way according to the ruling elites' political calculations, so that it did not threaten the core political structure.

More importantly, the economic crisis that preceded the *infitah* was, in fact, the result of Hafiz's adoption of piecemeal reform measures that shifted resources towards the highest echelons in the regime and their allies in the commercial sector. Up to the early-1980s the ISI policies, the debts and rates of investment, were paying off in development terms. In the early 1980s, the state bourgeois class engineered one of the biggest heists in Syrian history. By currency smuggling, they precipitated a balance-of-payments crisis from which the country never fully recuperated. The heist policies were pursued gradually time and again to siphon resources from the national economy. While the ISI programme during the 1960s managed to channel external aid and financial flows to the productive sectors in the economy, the Hafiz regime used them instead to expand military expenditure and enlarge the political patronage. It was the regime that decided not to build on the ISI achievement and prematurely reversed the statist policies that retain resources in the national economy.

3 Hafiz sets the foundation for piecemeal and tailored market expansion

Hafiz Assad never advocated economic liberalisation in the 1970s, despite his effort to revive the private sector from the very first day of his rule through his so-called pragmatic 'corrective movement.' The Hafiz regime was cautious with economic liberalisation because it wanted to avoid the depressive 'shock therapy' associated with the accelerated all-out liberalisation that was experienced in the former Soviet states. The public sector in Syria was the main employer of the wage-earning middle class

that grew enormously in the 1970s. The regime feared that shrinking the public sector would bring about social disorder, thereby creating a threat to the regime. The struggle with the Muslim Brotherhood – most intense in the years 1977–82 – was also another reason Hafiz was cautious with economic liberalisation (Hinnebusch, 2001b: 124). The regime worried that a revived private sector would bring with it anti-regime mobilisation, and the bourgeoisie would demand more political participation (Gambill, 2001a).

Behind the facade of public sector, the Hafiz regime introduced limited market liberalisation in the 1970s that set the foundation for Syria's gradual transformation to the market economy. Although piecemeal economic liberalisation started in the 1970s, it was only in the 1990s that they were officially announced as new government policies. The need for change was expressed at that time as the need for 'economic pluralism' (*al-ta'adudiyyah al-iqtisadiyah*) (Haddad, 2004: 70, ft.31 and Hopfinger and Boeckler, 1996: 190).[2] In the 1970s, the Hafiz regime allowed the establishment of mixed (public-private) sector companies in the tourism and agriculture sectors with the promulgation of Law No. 56 of 1977, Law No. 41 of 1978, and Law No. 10 of 1986 (Polling, 1994: 14–15 and Perthes, 1994). The management of the mixed-sector companies was in private hands, while the state held a minority share of assets of 25 per cent and acted as a silent partner (Lawson, 1989: 18). Private investors provided the financing for these investment projects and they were exempted from paying corporate taxes and import duties for up to seven years after their founding (Polling, 1994: 18). Law No. 56 of 1977 established the ASCTE (Arab Syrian Company for Touristic Establishments); Law No. 41 of 1978 established TRANSTOUR (Syrian Transport and Tourism Marketing Company); and Law No. 10 of 1986 established mixed sector companies in the agriculture sector (Polling, 1994: 14–15).

The regime concluded contracts with foreign firms, especially in the petroleum sector. The Syrian authorities made claims on petroleum production, and the foreign contractors supplied inputs and controlled production operations. The regime also introduced limited trade liberalisation with the conservative Arab states and with Lebanon in particular, granting authorisations – subject to a quota system – to licensed importers to bring in previously import-prohibited goods (Hopfinger and Boeckler, 1996). Customs duties on about 190 products imported from neighbouring Arab countries were also entirely lifted. Import of a wide range of manufactured goods, listed in the 'exceptional imports system,' was also authorised. These goods were harmful to the internal

industrial market, particularly to the local artisans and craftsmen who could not compete with the price of the smuggled goods (Lawson, 1984: 473). Duty-free areas around Damascus and the country's port cities were also established (Petran, 1972: 251).

Private investors were encouraged to work with public-sector companies. They presented their bids on public tenders to supply equipment and other material to the publicly-owned companies in industry, agriculture, construction, and transport. As mentioned in Chapter 4, they also operated as subcontractors and imported materials from foreign companies to the public sector. Private-sector activities were encouraged in the 1970s, but only according to the socio-political and economic priorities of the state. They remained concentrated in trade, services, and construction (Perthes, 1995: 50–51).

These unsynchronised and selective liberalisation measures were undertaken to win the support of the new commercial bourgeoisie, who represented the baseline of support of the regime and offset opposition from the radical Ba'athists in the Ba'th Party and the Islamists from the Muslim Brotherhood. The cohesion between the regime and the new commercial bourgeoisie strengthened, because the latter did not join the anti-regime strikes of the Islamists in the 1980s (Robinson, 1998: 161). The merchants, whose number increased from 72,000 in 1974 to 99,000 in 1981, benefitted from the limited liberalisation in the 1970s (Central Bureau of Statistics, 1975 and 1983). Some wealthy capitalists smuggled goods from Lebanon and competed with the small Syrian industrialists (Kanovsky, 1997: 3 and Lawson, 1984: 473). Others benefitted from loosening of state control and reduced the supply of raw materials, machinery, and assembly kits in the local market, selling them instead on the black market. The regime protected few mixed-sector companies and helped them to operate as quasi-monopolies in the tourism sector. It also selectively applied high customs on certain products such as tobacco to ensure that smuggled goods are protected from competition.

4 Lebanon: a facilitator for Syria's slow pace of economic liberalisation

One cannot adequately address the *infitah* history of Syria without referring to its neighbour, Lebanon. Access to the Lebanese market during 1976–2000 (the Hafiz period) helped Syria make up for shortfalls in its half-hearted economic liberalisation. Even given the Syrian military presence in Lebanon, which burdened the Syrian budget, the Syrian

state bourgeois class managed to siphon extraordinary economic gains from the Lebanese free-market economy. The Assad regime politically controlled Lebanon and became the dominant political force there for nearly 30 years.[3] Although the 1990 Ta'if Agreement envisaged the withdrawal of the Syrian forces two years after the implementation of the agreement, the Syrian regime reinterpreted the clauses of the Accord and stayed on as the guarantor of stability for Lebanon. Its position was that the withdrawal of Syrian military forces could not occur before the final pull-out of Israeli forces from southern Lebanon. In 1991, Lebanon and Syria signed the Treaty of Fraternity, Friendship, and Cooperation, which strengthened economic cooperation. Israel's losses and subsequent withdrawal from south Lebanon in 2000 strengthened Lebanese criticism of the Syrian military presence in Lebanon (Perthes, 2001: 41). The Lebanese bourgeoisie became more vocal in its demands for a complete withdrawal of Syrian troops. Evidently, Syrian retreat from Lebanon would entail immense damage to the Syrian state bourgeoisie that enjoyed access to global financial markets through Lebanese banks. It was only after Prime Minister Rafiq Hariri's assassination in February 2005 that Lebanon witnessed a complete withdrawal of Syrian troops.

Back in 1976, the Syrian military intervention in Lebanon represented the interests of American, Israeli, and Lebanese right-wing politicians in smashing the Lebanese left and taming the Palestinian resistance movement. The strengthening of the Lebanese progressive forces or the victory of the Palestinian resistance in Lebanon would have meant a Lebanese government close to the radical faction of the Ba'ath Party of Syria. That would encourage many dissidents in Syria and create a major threat to the stability of the regime (Middle East Research and Information Project, 1976). The Syrian regime therefore intervened to make changes in Lebanon that best suited its political interests – especially when it was threatened internally by the rise of antagonism between the Sunni majority and the minority Alawite rulers (Lawson, 1984: 456 and 459).

The Lebanese market became a magnet for Syrian unskilled or semi-skilled wage workers who sought higher remuneration for their labour (Chalcraft, 2009). It also represented an escape hatch to the newly acquired western lifestyle habits of the Syrian state bourgeois class. Migration from Syria to Lebanon alleviated the social disaffection that could have arisen had the numbers of the unemployed grown in Syria; hence the regime was relaxed about the huge numbers of Syrian migrants in Lebanon. These migrants were mainly employed in the Lebanese

construction sector. They were duly responsible for rebuilding much of the destroyed Lebanese infrastructure for an inadequate compensation, given the high returns to Lebanese capital.

To summarise: The Hafiz regime did not accelerate economic reforms because it made use of the neighbour's liberal economy. The wealthy capitalists who demanded free-market policies conducted business in Lebanon. This mitigated the pressure for increased liberalisation on the regime. Local and international analysts, in fact, had identified Lebanon as the 'lung' through which the Syrian economy breathed (MEED, 2007). According to the Lebanese economist, Joe Faddoul, Syria siphoned USD two billion annually from legal and illegal transactions in Lebanon (Spindle, 2005). Trade between Beirut and Damascus grew significantly during the Hafiz period. Syria made use of the port of Beirut – a large and efficient line of transport, trans-export and communication in the Middle East – through which foreign goods were transported to Damascus (MEED, 1975: 26 and Kanovsky, 1977: 144). Trade between Syria and Lebanon was estimated to have reached USD 90 million per annum in the 1990s. However, if smuggling is included, the figure could reach ten times as much (Kanovsky, 1997 and Marcus, 1996).

Lebanon was an 'offshore zone' for the Assad regime. In particular, it was a significant source of wealth that was used to reward the regime's loyalists (Lawson, 1984: 474). Syrian military officers, especially those occupying the highest political positions in the state apparatus, benefited greatly from the Syrian presence in Lebanon as they openly invested in the Lebanese industrial, commercial, and service ventures along with Lebanese businessmen (Ghadbian, 2001: 635). There were no significant business restrictions imposed on the Syrian bourgeoisie given that Lebanon was virtually a subordinate entity to Syria (Kanovsky, 1997: 5). They were involved in key business deals, such as the GSM phone contract awards to Cellis and Libancell, during the Lebanese reconstruction period in the mid-1990s (MEED, 2007). They were free to travel back and forth to Lebanon to carry out various transactions in the Lebanese banking system, especially after the Lebanese government removed most travel restrictions between the two countries (Gambill, 2001b). Certain Lebanese employees were given special passes or military lines (*khatt 'askari*) that enabled them to easily cross the Lebanese-Syrian border by bypassing the meticulous security search at the border. These employees would collect deposits from the Syrian bourgeoisie and return to Beirut to credit their respective accounts. Such transactions were not usually documented in the sense that no signing

of official papers were carried out between the two parties (Haddad, 2004: 74, ft.69).[4]

Moreover, Syrian military officers undertook a variety of contraband activities. By controlling the trading routes and custom operations with Lebanon, they managed to smuggle goods from Lebanon (Robinson, 1998: 176). Many key military officers, such as Rifa't Assad, Ghazi Kan'an, Ali Haydar and Shafiq Fayyad were enriched during that period. Anecdotal evidence shows that military officers competed over positions and assignments in Lebanon (Haddad, 2002: 224). The 569th Army division used its vehicles to smuggle luxury cars (Haddad, 2002: 241). It has been estimated that USD 1 to USD 1.5 billion worth of goods were smuggled into Syria. When the Syrian armed forces were redeployed in Lebanon during the 1970s, imports from Lebanon provided a range of consumer goods that the Syrian market craved. Eventually, Syrian officers were operating a black market in everything from tape decks to automobiles, which accumulated astronomical profits. On the other side, subsidised Syrian goods ranging from cement, petrol, and sugar were sold in the Lebanese markets where market prices are higher (Sadowski, 1985). The chief beneficiary of these smuggling activities was the president's brother Rifa'‘t Assad, who was in command until 1984 (Richards and Waterbury, 1996: 367–68).

The Syrian troops – estimated at 35,000 to 40,000 soldiers – withdrew from Lebanon in 2005. Syrian exports to Lebanon dropped from USD 240 million in 2004, to 196 million in 2005 and then to 178 million in 2006 (*The Syrian Lebanese Higher Council,* 2008*),* mainly due to the fall in exports of Syrian oil derivatives to Lebanon. Lebanese exports to Syria in 2007 (USD 210 million) were higher than Syrian exports to Lebanon (USD 206 million) ((*The Syrian Lebanese Higher Council, 2008*). The main Lebanese exports included metal products, food products, chemical products, and wood and paper. These four items accounted for 62 per cent of total exports to Syria. In the other direction, Syrian exports to Lebanon included metal products, fruits and vegetables, chemicals, animals, and other animal products (*The Syrian Lebanese Higher Council* 2008). Close monitoring of the aftermath of the withdrawal of Syrian troops shows that strong links persisted between the two countries despite the political tensions after the Hariri assassination (MEED, 2007). The smuggling activities did not stop (Robinson, 1998: 173). The informal sectors that were created after the Syrian withdrawal from Lebanon wove intricate cross-border trade and maintained tight economic ties between the two countries. The flow of goods, including arms, ammunition and other illicit goods, across the border continued.

5 The early Hafiz days: living the legacy of statism

In the 1970s, statist policies with limited *infitah* represented a good recipe for economic independence. The state maintained its leading role in the economy and the public sector remained the main source of revenue. Syria benefitted from the first oil boom of 1973–81 and its windfalls. Starting in 1974, export of oil surpassed that of cotton, constituting 72 per cent of total exports in 1979 (Central Bureau of Statistics, 1988). Backed by high oil prices, workers' remittances especially from the Gulf conservative countries peaked, amounting to USD 750 million per annum after 1975 (Carr, 1980: 455). The Syrian regime acted as an 'intermediary regime': it received financial assistance from the Soviet Union and the ex-Soviet East European nations while also obtaining foreign aid from the conservative Gulf states (allies of the US), Iran, and Libya, especially after the October War of 1973. In the early 1970s, the Soviet Union and other East European countries were the main contributors of foreign aid (Carr, 1980: 455), after which the Arab Gulf states took over. These flows constituted part of the geopolitical rents that Syria received because of its regional political role as a 'front line state' with Israel (Melhem, 1997: 4, Olmert, 1988: 733, and Hopfinger, 1996). The regime's antagonism toward Israel was considered by other regional Arab countries, especially the conservative Gulf States, as a necessary response to Zionism and to the Israeli threat. Syria received very large capital inflows that helped it solidify this strategic regional position. Specifically, it received USD 2.1 billion during 1973–76 and about USD seven billion during 1977–81 (Sukkar, 1994 and Carr, 1980). This inflow of capital amounted to an average of 12.7 per cent of GNP during 1977–81 (Sukkar, 1994: 27). However, the bulk of the financial support came from the 10-year Steadfastness Fund that was set up at the Baghdad summit in 1978, in which the quota for Syria reached 1.85 billion dollars (*Oxford Analytica*, 1989). The Hafiz regime in its early days was still influenced by the radical policies of the ISI programme and liberalised the market without jeopardising the decisive role of the public sector. It channelled resources to building productive capacity, the result of which was increased investment in 1970s. GFCF increased from S£ 897 million in 1970 to S£ 14.1 billion in 1980, and public investment contributed more than 60 per cent of total GFCF each year in the late 1970s. The economy realised considerable growth in almost all sectors except agriculture.[5] Living standards improved and per capita GDP at constant prices grew at an annual rate of 6 per cent during the 1970s (World Bank, 2010). However, this situation did not last for long. Hafiz was more concerned with maintaining

the regime's political stability. Subordinating economic considerations to the political priorities of the regime's survival implied an inevitable reversal of these economic achievements.

6 The economic crisis of the mid-1980s

In the early 1980s, the Hafiz regime adopted policies that accelerated the diversion of resources to the nonproductive sectors. It prematurely parted with the ISI programme and channelled resources to building the internal security apparatus instead of enhancing state-led, import-substituting industrialisation. The five-year plan (1980–85) reduced government spending on imports and allowed only for the completion of unfinished investment projects from the 1970s. Capital inflows (geo-political rents and aid) during that time were directed into military expenditure and other current expenditures – mainly political patronage[6] – rather than on developmental and infrastructural projects.

The regime spent lavishly on military – after the 1973 War and especially after the 1979 Camp David agreement – although it did not undertake any major combat operations after 1973. Syria's 'constant preparation for war' against Israel ensured that it overspent on military and maintained its 'praetorian leadership' in the Arab region (Perthes, 2000: 158). Internally, the regime maintained its iron grip on society through a tight security and intelligence apparatus that managed to put an end to a wide range of internal conflicts and political threats to the regime, like the Hamah revolt in 1982 (Lawson, 1984: 477). Syria was described as a police state because every part of Syrian life was monitored by the Syrian secret services (*mukhabarat*) (Picard, 1988: 127 and 135). Hafiz did not hesitate to fire and expel commanders, including his brother Rifa't, if he faced political threats from them (Owen, 2004: 185 and Olmert, 1988: 726). He quelled opposition in any form, left or right (Batatu, 1982: 15 and Lawson, 1997: 11). The Muslim Brotherhood and the communist parties, as well as the prisoners of conscience, such as Riad Al-Terk, were all victims of Hafiz's repression.

Military spending burdened the government's budget.[7] Estimates show that military expenditure – including imports of Soviet arms – amounted to 30 per cent of GDP. Military outlays increased from USD 1.8 billion dollars in 1977 to USD 5.4 billion in 1984 (Clawson, 1989). It was estimated that military spending was two point one times higher than spending on education and 33.5 per cent higher than the spending on health (Ayubi, 1995: 261). Most of the arms purchases were financed by geopolitical rent from the Gulf and by Soviet loans (Clawson, 1989) that

it repaid in Syrian goods exported to the Soviet market. Investment in the dwelling and construction sector increased because of building of new military establishments and institutions, such as the Ministry of Defence and the Military Construction Establishment. A decomposition of GFCF in the late 1980s shows that the dwelling category constituted the highest average share (27 per cent) of total GFCF (Central Bureau of Statistics, 1989). On another front, the average rate of mining and manufacturing dropped from 45 per cent of gross fixed capital formation (GFCF) in the late 1970s to 30 per cent in early 1980s, then further to 23 per cent in late 1980s (Central Bureau of Statistics, various issues).

Because the economy was highly dependent on external funds, it was the shortfall of these capital inflows that contributed to the economic crisis in the mid-1980s. Aid flows, loans and workers' remittances from the conservative Arab countries dropped following the fall in international oil prices in 1986, adding pressure to the balance-of payment-constraint. Syria also lost a huge amount of Arab aid because of its political position on the Iraq-Iran War (siding with Iran). Arab transfers fell from USD 1.8 billion a year during 1979–83 to USD 500 million during 1986–88 (Hinnebusch, 1993a: 188). Credit from the West also declined, and Western sanctions on the economy were imposed in 1986. Foreign exchange reserves fell to about USD 357 million, sufficient to finance one month of imports only (Sukkar, 1994: 28). The trade account registered a deficit in the second half of the 1980s, because Syria imported oil while its exports fell. Following the government's austerity measures, production levels dropped. Real GDP growth rate dropped to 1 per cent in the late 1980s compared to 5 per cent in the late 1970s (World Bank, 2014).

During the 1980s, the state bourgeoisie and the wealthy merchants smuggled Syrian pounds into Lebanon and exchanged them for dollars in the Beirut exchange market. The state bourgeoisie who were keen to store their wealth in dollars, kept their funds in Lebanese banks or other banks in neighbouring countries (interview with al-Zaim, 2007). This contributed to the foreign exchange rate crisis in Syria and to the severe depreciation of the Syrian pound, which simultaneously pushed prices up in 1986–87. In 1985, the value of the Syrian pound in Beirut dropped from 10 (S£/$) to 18 (S£/$), and continued to slide thereafter (Sukkar, 1994: 27). The government started to devalue the Syrian pound, from S£/$ 3.90 in 1979 to S£/$ 10 in 1985, S£/$ 20 in 1986, and finally to S£/$ 45 by the end of the 1980s (Seifan, 2010: 4). In 1986, a new 'encouragement' rate for noncommercial transactions was introduced and set close to the black or free-market rate of 22 S£/$ (Perthes 1994: 58). The

government also introduced a law in September 1986, known as Law No. 24, that imposed serious penalties on illegal foreign-exchange dealings so as to curtail smuggling in the currency black market and slow down the slide in the value of the Syrian pound.[8] As a result, prices increased by 498.3 per cent over the period 1980–89 (World Bank, 2014). While official figures recorded an unprecedented inflation rate of 60 per cent in 1987, up from 36 per cent in 1986, unofficial figures reported more than 100 per cent per annum in both 1986 and 1987 (Sukkar, 1994: 28). Syria also defaulted on its external debt payments (Kanovsky, 1997: 3), of which USD 100 million in 1989 and USD 210 million in 1990 fell into arrears (Lawson, 1994: 48–49).

The cumulative effect of low production levels, trade deficit, budget deficit and hyperinflation pushed the economy into structural deficits in the second half of the 1980s. Whilst state employees, farmers and industrial workers suffered from real income losses due to the huge rise in inflation, the state capitalist class with its allied wealthy merchant class made fortunes (Najmah, 1986: 323–24). Available data on wages and prices showed that while public-sector wages increased by about 300 per cent, retail prices rose by approximately 600 per cent from their 1980 level (Perthes, 1992b: 43).

7 Investment liberalisation in 1991: opening the way to a 'freer' market

Starting in the late 1980s, the Syrian government gradually surrendered some of its economic levers on the private sector for both economic and political reasons. As explained earlier, the economy suffered from a plunge in foreign exchange, a crisis in the balance of payments, and depletion of public resources. The collapse of the 'Soviet project' and the domination of the neoliberal paradigm in the 1990s 'also played an influential role. When loans and grants declined from the Eastern bloc, Syria, which needed alternative sources of economic assistance, parted with its radicalism in regional affairs (Pan-Arabism) and sided with the winners of the Cold War – the US and its allies. Syria received USD two point five billion from the Gulf states because of its political stance with them against Iraq in the Gulf War (Sukkar, 1994: 37).[9] Also, regional factors including two successive military defeats in the 1967 and 1973 Wars weakened Syria. It was the Madrid Conference of October 1991 that deluded the Arab region into believing that peace was a possibility and, as such, the Syrian regime became yet more confident in deepening its market-friendly reforms.

The early 1990s witnessed the promulgation of investment Law No. 10, a major qualitative measure that revived the private sector. It represented rapprochement with the bourgeois class, especially the old bourgeoisie, whose business activities were tightly curtailed during Syria's nationalisation experience. While private commercial activities were conducted jointly with the public sector during the 1980s, they could be pursued on a wholly private basis under Law No. 10.[10] This law broadened the scope of activities for the private sector by permitting Syrians, other Arabs, and international investors, to invest in previously prohibited sectors. It was responsible for approving and initiating investment projects in most sectors of the economy – industrial, agrarian, transport, oil and energy, health, and infrastructural sectors – except for tourism, private banking and insurance. The minimum amount of capital required for an investment project was S£ 10 million, equating to USD 240,000 – calculated at the market rate of S£ 42 per US Dollar. The Law represented a reversal of the statist policies of the Ba'athist period. It also restored private ownership, which subsequently enabled the state bourgeoisie to own private property.

The Law offered tax exemptions while facilitating trade and exchange transactions. Approved projects were granted five years of tax holiday. In an attempt to boost production at the time, companies that exported 50 per cent of their output were eligible for another two years of tax exemption. Investors could borrow in local currency from the state banks to finance their projects. They could import duty-free goods used for setting up and running investment during the implementation phase. They could also retain 50 to 75 per cent of their export earnings to finance imports of raw materials and industrial products to be used in their investment; the remainder had to be surrendered to the Commercial Bank of Syria at the market exchange rate (Sukkar, 1994: 32). Firms were also exempted from foreign exchange regulation, a major bottleneck to investment at the time (interview with the SIA, 2007). At the Central Bank of Syria, they could exchange their hard currency in the local market and open bank accounts in foreign currencies. In case of project failure, they were free to repatriate their invested capital to their home country.

In 2000, an amendment to investment Law No. 10, Legislative Decree No. 7, was introduced to deepen investment liberalisation. It allowed investors to open bank accounts outside Syria in foreign currencies and to freely move profits attained from their investment in and out of Syria by using the neighbouring exchange rate (i.e. S£/$ 50). Other financial exemptions, such as reduction in business taxes from 32 per cent to

25 per cent, were granted to attract private investors (Kanaan, 2000: 108–09). However, LD No. 7, like Law No. 10, failed to target the productive sectors.

The main limitation of Law No. 10 was that it treated all sectors of the economy equally (interview with Ministry of Industry, 2007). It failed to prioritise productive sectors by excluding the other sectors from financial privileges. It provided the same incentives and guarantees to all investment projects in all fields, without assigning priority to building the economy's productive capacity or imposing the obligation of job creation. Private investors, especially merchants, who were keen to increase their own private profits, managed to abuse the Law and benefit from its financial privileges. The next chapter will expand on this point and show that private-sector–led investment served private as opposed to social benefit.

Other limitations included the lack of synchronisation in economic reforms that made it difficult for Law No. 10 to encourage investment in Syria. Law No. 10, on its own, was unable to provide guarantees to local and foreign investors that would encourage them to make commitments over the long term. With the exception of tax law No. 20 of 1991, which substantially reduced business taxes (Perthes, 1995: 58), Law No. 10 was introduced without changes in other laws that had been in effect for more than two decades and that needed reform to gain the trust of investors. Investors were sceptical of the half-hearted liberalisation and were also discouraged by the conflicting legislations – Law No. 10 exempting investors from foreign exchange regulation, while Law No. 24 of 1986 remained in force until 2003 (interview with Ministry of Industry, 2007). The absence of clear-cut domestic laws concerning the rule of law, property rights and financial regulations, as well as ongoing bureaucratic obstruction and other administrative difficulties when opening a new business in Syria, discouraged investors. In particular, issues related to banking, repatriation of funds, and taxes were unclear and contradictory, which deepened investor mistrust (interview with Ministry of Industry, 2007). Investors always feared that abrupt political changes might reinstate nationalism and impose capital restrictions on their investment. There was also lack of confidence in the legal system, which, as already noted, was itself very contradictory. The judiciary in Syria was unreliable and unlikely to favour foreign over local interests, especially when local companies enjoyed the political support of the regime. An exemplary case involved Orascom Telecom, an Egyptian company that owned a 25 per cent share in SyriaTel, a local phone company. When a financial disagreement developed between the two

partners in 2002, a Syrian court froze Orascom's assets in Syria. Orascom was subsequently able to sort the problem out in a foreign court and the two parties eventually reconciled, ending Orascom's partnership with SyriaTel (Perthes, 2004b: 38).

Moreover, the Investment Bureau that was attached to the ministerial Higher Council of Investment could not act as an independent and viable body. Like all other vital state bodies, it was incorporated into the authoritarian structure of the state. Its role was limited to screening and processing project applications and to monitoring project performance. Feasible projects were submitted to the Higher Council of Investment – composed of the Prime Minister (the chairperson of the Council) the president of the Investment Bureau, and other ministers – for approval. The chairperson met with experts to take their opinion on the investment projects; however, the final decision remained with him. Incentives were given arbitrarily to investors according to how much they were connected to the state bourgeoisie and not according to the importance or performance of their projects. With such biasedness in granting approvals and financial incentives, the Investment Bureau failed to mitigate the barriers to entry and to increase competition in the market (Kanaan, 2000). The Investment Bureau also failed to act as a viable one-stop shop to govern investment projects from plan to implementation (Reddawi, 2001: 7–8) between 1991 and 2006.

8 Concluding remarks

The main contribution of Law No. 10 was the revamping of private ownership through which the state bourgeoisie formalised their informal hold on property. The state bourgeoisie started to gradually transmute itself from a class of state capitalists to one of private capitalists and became the tycoons who controlled the market through monopolies and quasi-monopolies during the Bashar regime. However, Law No. 10 did not achieve generally fruitful economic results. It failed to promote long-term and productive investment that can ensure job creation and higher living standards for the Syrians. The main investors remained the state bourgeoisie and their new allies in the commercial bourgeoisie who abused the law for short-term profit. The state bourgeoisie parted ways with the interests of the middle class and shifted its alliance to the new bourgeois class, especially the merchants. State capitalists were keen to invest the wealth they had accumulated through the control and management of state properties in the private sector.[11] By restoring the private sector, Law No. 10 made this possible. The state bourgeoisie

looked for profitable and parasitic business opportunities in the private sector to amass its own wealth. There are no clear figures of how many 'brigadier merchants' there were, but anecdotal evidence from Syria signified that it was a rare occurrence that a military officer retired without undertaking a business partnership with wealthy merchants in the private sector.

As its class-based interests changed to become more entrepreneurial and capitalist, the state bourgeoisie formed a new agent of investment with the new commercial bourgeoisie (the 'military-mercantile complex'). The driving social force determining investment after liberalisation was not confined to the bureaucracy of the state, but rather became an amalgamation of military officers and businessmen. A more commercial way of doing business was strengthened and investment was directed away from industry and into real-estate speculation and into trade-related, touristic, and short-term transport activities in the tertiary sector. These activities entailed little risk and quick returns (Ayubi 1995: 345; Perthes 1992a: 211–12). As will be demonstrated in the next chapter, the traditional industrial sector had been on the wane for more than two decades prior to the uprising, and the private sector failed to initiate employment-generating investment that could ensure jobs for the growing labour force. The process of capital accumulation therefore tilted away from the public interest and into the private interests of the new agent of investment.

The next chapter will focus on the Bashar Assad regime and its promulgation of wide-ranging economic reforms during 2000–10. The socio-economic implications of economic reforms including investment reform will be examined in more detail. Data and information compiled from field trips to Syria will serve as substantiated evidence to prove that private sector-led investment following investment reforms did not boost industrial expansion. It did not contribute to economic and social development and did not ensure adequate production levels of goods and services. Investment reforms were tailored to serve the private concerns of the 'military-mercantile complex' and failed to enhance the economy's productive capacity. Concomitantly, the working class and the peasants were subjected to the baleful cost of liberalisation. The most visible cases were the dispossession of peasants following land privatisation, dampened purchasing power because of rising prices, deepened social polarisation, and increasing unemployment, especially among youth and women.

6

Economic Liberalisation as an Irreversible Trend during the Bashar Regime: The Socioeconomic Fuel of the Syrian Crisis

1 Introduction

This chapter examines Bashar's lurch to the market-driven economic order starting in the year 2000. Neoliberal reforms were wide-ranging and included lifting of price controls and tariffs, amending investment reform law, unifying the exchange rate, removing subsidies, and opening up trade and capital accounts. The Bashar regime aimed not only to transform the economy from a state-controlled to a market-oriented one, but also to serve the class-based interests of the state bourgeoisie. The natural next step for that class was to break free from the fetters of state control and to transform itself from a state capitalist class, which controls the means of production through its control of the state, into a private capitalist class that owns the means of production. While on fieldwork, the standard cliché that I heard from state officials in response to my critique that market liberalisation has not paid off was that the move toward the free market was irreversible. The grip of neoliberal ideology on the imagination of ruling class and its cronies acted like a sedating drug: while working people became poorer, the authorities hallucinated that conditions were rosy. Nevertheless, this irreversible move would eventually prove disastrous.

What was the evidence that the free market recipe floundered? In this chapter, I provide data and technical information compiled from fieldwork to substantiate the contention that private-sector-led investment following economic liberalisation was neither employment-generating

nor developmental. Much of the free-reforms hid behind the laws liberalising investment. My investigation on the ground and discussions showed that industrial establishments under investment reform laws were minimal in comparison to other economic endeavours. The staff interviewed at the Syrian Investment Agency and the Ministry of Industry in 2007 were most helpful in explaining to me that under Law No. 10, namely, commercial-type of investment activities took root.

Apart from the ideological strength of neoliberalism, the other issue one notices clearly is the divide between the interest of the local industrial class and the merchant class. Industrialists were hurt by dwindling state credit and loss of protection from unfair competition as a result of lifting the tariff barrier on imports. Merchants were contended because of the privileges of laissez faire imports, free flow of capital, and the fixed and consolidated exchange rate. They were most happy with the lifting of price controls. These conclusions were echoed by state officials from the Syrian Ministry of Industry and Ministry of Economy and Trade, who confirmed that the private sector boosted commercial investment over manufacturing. For instance, Al-Za'tari (former Resident Representative of the United Nations) from UNDP-Syria expressed that Syria has been transformed from a state-planned economy into a FIRE (Finance, Insurance and Real Estate) economy. The late Al-Zaim (a foremost scholar of Syria's economy) also linked the change in the investment pattern to the change in the class interests of the social class responsible for investment.

This chapter also examines the economic, social, and environmental sources of the social unrest. With a rising Gini index and increasing discrepancy between wages and profits, it is evident that the laissez-faire reforms were neither pro-poor nor egalitarian, any rhetoric of 'opportunity' to the contrary. Certain segments of society benefited at the expense of others. Crucially, the political revolt had agrarian roots: the farmers' disaffection as a result of the severe droughts in 2006–10 and the regime's austerity measures toward the agricultural sector. These, along with socially-irresponsible investment policies, aggravated social hardships that partially contributed to the political uprising in 2011.

2 The Bashar Assad regime: difficult inheritance and the metamorphosis of the state bourgeoisie

In 2000, at 34 years old, Bashar Assad became the president of the Republic by a hasty amendment to the constitution that facilitated the smooth transition.[1] Before presidency, he acted as a lieutenant general and a commander in chief of the armed forces. He was also elected as the

general-secretary of the Ba'ath Party, which also makes him the president of the Progressive National Front. Bashar maintained the internal consolidation of power and kept a firm grip on society despite the pro-democracy rhetoric that was promoted during the first days of his rule. He did not overlook the state's primary purpose of regime security, maintaining the strong security and military apparatus that was implemented during his father's days. He also pursued his father's legacy in foreign relations and continued to improve the regime's relationship with regional and international powers.

Bashar handled a difficult inheritance. The Hafiz regime left unresolved economic problems that can be traced back to the economic crisis of the mid-1980s. These included low growth rate in real GDP per capita, a poorly performing public sector, weak employment generation, and rising poverty and unemployment.[2] GDP per capita at constant prices grew at an annual rate of -1.2 per cent in the late 1990s (Central Bureau of Statistics, 2010 and other issues). Poverty hovered at double-digit level (14.3 per cent in 1996–97) (UNDP, 2005). Nominal wages did not increase during the second half of the 1990s, falling behind the increase in prices (Al-Sattel, 2001). It was estimated that the purchasing power of Syrian workers dropped by 12 per cent per annum during 1994–2000 (Izmishli, 2000). This chapter will include an account of how the Bashar regime unfortunately left these problems unaddressed and leapt into the neoliberal transformation.

From a political-economic perspective, economic reforms in Syria had always been determined by the political calculations of the state bourgeoisie rather than by economic considerations (see Chapter 5). For instance, a Syrian analyst pointed out that economic liberalisation in Syria had transformed it into an 'economy of state opportunities (Reddawi, 2001).' The state bourgeoisie would target a certain sector, for example telecoms, for reform because investments in it were highly profitable. The intensive package of economic liberalisation initiated by Bashar therefore served the political interests of the state bourgeoisie, who were eager to transform themselves from state capitalists to private capitalists.

In the few years prior to the uprising, the dominant private capitalists or property-owning bourgeoisie were the state bourgeoisie themselves: Rami Makhluf and Mustapha Tlas, the sons of 'Abd al-Halim Khaddam, and the sons of Bahjat Sulaiman. These wealthy capitalists made use of their close ties to the regime to exploit economic reforms and initiate their own profitable business ventures that added to their private wealth (Seifan, 2010; Barout, 2011). Rami Makhluf, a cousin of the president,

controlled as much as 60 per cent of the economy through a group of business projects and virtual monopolies in telecommunications (SyriaTel), oil and gas, real estate, construction, banking, duty free, and retail (Ramak Duty Free shops) (Saigol, 2011).[3] Makhluf was also the main shareholder of Cham Holding Company, Syria's second largest holding company, which includes most of Syria's prominent businessmen. Cham Holding Company's investments were mainly in real estate projects, infrastructural works, and transport and finance projects. Mohamad Makhluf, the father of Rami, was head of the Tobacco Department. He made lucrative profits by smuggling illegal Marlboro and B-grade cigarettes into the country (and caused clashes with Rifat Assad). The sons of Tlas owned the MAS Group (a chain of different commercial and semi-industrial companies) while the sons of Sulaiman controlled the United Group (an important advertising and marketing company) (Ismail, 2009) and the sons of Khaddam owned Afia, one of Syria's largest food firms, which produced food conserves, olive oil, and bakery products (*The Syria Report*, 17 April 2006). Nizar Assad, another important businessman, is the CEO and main shareholder of Lead Contracting and Trading Group, the country's largest oil field services firm. Together with Rami Makhluf ,he invested USD23.2 million in Gulfsands Petroleum, a UK-based oil company that conducts operations in Syria (*The Syria Report*, 2 July 2007).

Evidently, the main social force determining investment no longer rested within the bureaucracy of the state as during the previous Ba'athist state-capitalist phase, but rather became an amalgamation of regime figures or military officers and businessmen, or what became known as the 'military-mercantile complex.' Nevertheless, Syria's transition from a state-led to a market-oriented economy cannot be explained without referring to the regional and international developments that weakened Syria. The two successive military defeats in the 1967 and 1973 wars against Israel and, more important, the ideological defeat of the Soviet project in 1990 paved the way for the reversal of the radical and progressive reforms of the state-capitalist phase. This combination of shifting geohistorical currents, the change in the class-based interests of the state bourgeoisie, and the rise of laissez-faire ideology set the stage for the volte-face to follow.

3 Bashar's uncontrolled lurch into a market-driven economic order

The Bashar regime did not start with a thorough institutional reform that authenticates and empowers the incorporated institutions (police,

judiciary, legislative, private property law, and associated regulatory bodies) that, in turn, are needed to build a 'confident' market economy. Institutional reforms 'may encourage' accountability, ensure fair and transparent rules of the game, promote confidence in the judicial system, and put an end to corruption and unfair practices. Instead, the regime decided to set aside such institutional rationalisation and continue with economic reforms, but this time at a more intensive pace. The major liberalisation measures enacted during his era were investment liberalisation, counter land reforms, lifting of price controls, introducing a private banking system, and establishing private-sector-led monetary policy. These reforms laid a solid and irreversible foundation for the expansion of the market-driven economic order.

Unlike Hafiz, Bashar allowed the International Financial Institutions (IFIs):the World Bank and the International Monetary Fund,to interfere in the process of economic liberalisation (IMF, 2009a and 2010). The IFIs allegedly claimed that market-led reforms would promote macroeconomic stabilisation. The Syrian policymakers were also convinced that the neoliberal paradigm and its associated profit-based resource allocation mechanism would inevitably 'trickle down' and improve the social conditions of ordinary Syrians. In reality, the transition to the market economy completely abandoned any progressive social agenda and removed various social services that had been previously provided to Syrians. These points are further elaborated in the last section of this chapter.

Wide-ranging economic reforms did not crowd in political reform. The Bashar regime sparked few reformist hopes even as demands for reform grew louder, both from Syrian intellectuals and from political opposition forces both inside and outside the country. During the first six months of Bashar's rule, a group of 99 prominent intellectuals and writers initiated a political reform movement known as the 'Damascus Spring.' They issued an open letter in which they called for political freedoms – freedom of expression and of the press – the release of all political prisoners of conscience, and for political pluralism (Ghadbian, 2001: 636–38). In 1998, Bashar ran a campaign against corruption. The former Prime Minister, Mahmoud al-Zu'bi, was accused of corruption. He was expelled from the Regional Command of the Ba'ath Party and his assets were confiscated, after which he committed suicide. Hikmat Shihabi, a former high level official, was also charged with corruption. Shihabi's case was more significant than Zu'bi's as he was a serious candidate for succession to the presidency and was therefore sidelined by the regime (Ghadbian, 2001: 633). And so it went. It was not long, however,

before the 'Damascus Spring' came to an end and efforts at political reform were turned into retrenchment.

The open-market reforms during Bashar's days consisted of:

3.1 Investment liberalisation

Legislative Decree (LD) No. 8 was enacted in 2007 to encourage more private investment. By replacing the old Investment Law No. 10 of 1991, LD No. 8 became the main legal framework behind private investment starting 2007 (interview with Syrian Investment Agency, 2007). With the new LD, the authorities removed the remaining state controls on private investment and allowed investors to purchase and own the land on which the investment project is conducted. This encouraged local, foreign, and Gulf investors to invest in real estate. Local investors also implemented business projects – mainly commercial offices, service complexes, housing complexes, hotels, restaurants, and cafes – on the purchased property.[4] Investment in real estate was undertaken to speculate on rising prices of assets, underpinning a real estate boom during 2002–10 (Seifan, 2011: 5).

A new investment authority, the Syrian Investment Agency (SIA) was created under LD No. 9. SIA replaced the Investment Bureau that had been operating for 15 years. Today it acts as a one-stop shop and is responsible for supervising and governing investment projects. It provides advice and support in administrative procedures to investors. The SIA is directly affiliated with the Prime Minister's office. However, unlike its predecessor – the Investment Bureau – it has the authority to license projects without the approval of the Higher Council of Investment. It has a board of directors, whose members are appointed by the Prime Minister and whose chairman is appointed by a ministerial decree.

According to SIA, LD No. 8 is responsible for investment in industry, oil and gas, agriculture, environment, transport, IT, and services (interview with SIA, 2007). Investments in these sectors therefore benefit from the privileges, facilities, and guarantees granted by LD No. 8. The tourism and financial sectors are overseen by other government bodies (defacto tourism projects fell under Law No. 10 and LD No. 8 through operation of Holding Companies and establishment of real estate complexes).[5] The similarities and differences between LD No. 8 of 2007 and the previous Law No. 10 of 1991 are summarised as follows (interview with SIA, 2007):

The right to buy land and buildings: According to LD No. 8, investors have the right to buy the land and buildings needed for their projects.

They are also allowed to exceed the ownership ceiling on land if it is used for the purposes of their investment.

Introducing the dynamic tax discount: LD No. 8 removed the five-to-seven year tax exemptions that were granted by Law No. 10 of 1991 (interview with Ministry of Finance, 2007). Instead, tax law of 2006 (LD No. 51) – which replaced the income tax Law No. 24 of 2003 – became responsible for financial issues of all investment projects. This new decree is the only law that grants tax exemptions through a dynamic deduction mechanism. Investors are subject to a dynamic tax discount throughout the period of the project, depending on its financial and economic success. Taxes are reduced to 28 per cent and can drop down to 14 per cent, depending on how well the investment project is performing (interview with Ministry of Finance, 2007).

Failure to give priority to the productive sectors of the economy continues to apply: Like its predecessor, LD. No. 8 does not differentiate between economic sectors. The privileges, exemptions, guarantees, and facilities are granted equally to all investment projects regardless of the type of investment. This opened the door for the commercial bourgeoisie to make use of these privileges and to engage in short-term and non-productive types of investment for quick profit-making.

The dispute settlement process continues to apply: In case of disputes, the Decree lists four methods for resolving conflicts: through arbitration; through the Syrian judiciary; through the Arab Investment Court – established pursuant to the Unified Agreement for the investment of Arab Capital in the Arab states in 1980; or through the Investment Insurance and Protection Agreement that is signed between Syria and the investing country or any other international organisation. The Decree also states that Syrian courts should deem all investment-related disputes to be urgent.

The right to repatriate funds continues to apply: Investors under LD No. 8 are allowed to repatriate their capital in the convertible currency. They can do this if unforeseen circumstances prevented the initiation of the project, and they are also allowed to repatriate their shares in the project in the convertible currency upon its liquidation. Foreign employees (Arab and non-Arab experts, workers and technicians) can also repatriate or transfer 50 per cent of their income and bonuses and 100 per cent of their end-of-service compensation in the convertible currency. However, they are entitled to settle the taxes due on the wages and bonuses.

Permission for dealing in foreign currency continues to apply: Because Decree No. 24 of 1986 that prohibited transactions in foreign currency was a major impediment to investors, LD No. 8 lifted this restriction. Moreover, Decree No. 24 of 1986 was abrogated by Legislative Decree No. 33. The latter decree states that all transactions in foreign currencies and in precious metals should abide to the regulations set by the Ministry of Economy and Foreign Trade.

Lifting of import prohibitions on machinery, tools and equipment continues to apply: Investors are allowed to import all their needs without being subject to import restrictions. All equipment and machinery are exempt from customs duties. Non-custom restrictions are also eliminated in conformity with binding international agreements, such as Greater Arab Free Trade Zone agreement. Import of transport vehicles and cars are allowed as long as they strictly serve the investment project.

A caveat is required here. The above-mentioned points focus on internal issues and limitations. However, there remains another important factor: external geopolitical risk. As much as the internal factors matter, external forces have also played an important role in influencing the course of events in Syria. Crucially, high geopolitical risk had kept entrepreneurs reluctant to invest in Syria, regardless of the investment climate and investment laws. The uncertainty over the horizon had not been conducive for local and foreign investors to run investments with high sunk costs over a long gestation period. It must be recalled that the rate of investment took off in the early 1990s simply on the grounds that the region was presumed to be set on a new peaceful course of development after the Madrid Conference in 1991. While institutional quality mattered, a secure political environment also counted. Even offered a one-stop shop, investors still shied away from long-term commitments. Investment in Syria had to be underwritten by a more stringent set of guarantees from the state that surpassed the one-stop shops.

3.2 Trade liberalisation

Starting in 2000, Syria began to open up its borders to foreign imports in an effort to integrate with other regional and international economies and boost bilateral trade and investment.[6] This move was accelerated by the signing of free trade agreements with partner countries such as Turkey. Syria also substantially reduced customs on the blacklist, known as the ‘negative list,’ of commodities that had high tariffs levied on

them, from 3,000 items to a mere 100 by 2007. Many of these products, such as fruits, vegetables, cotton, and textiles were banned during the ISI program in order to protect local industry, whereas other products such as animals, animal products and internationally prohibited drugs were banned for security, religious or health reasons.

Trade liberalisation and the lifting of state protection had created serious challenges to Syrian industry, which needed reform and modernisation to be able to compete at international standards (Abdel-Nour, 2000). The elimination of the import blacklist exposed local production to foreign competition. The Syrian economy could not sustain the pressures from abroad. The 3,000 blacklisted items formed part of the supply line of the security structure of the state, given that Syria had been in a state of war with Israel. They included essential items with dual usages (military and civil). Experimenting with openness for the purpose of testing whether these industries would be able to actually cope with competitiveness from abroad was not something that the Syrian economy could afford. In fact, trade openness, including the Ankara Treaty, led to dislocation of productive resources and to the closure of many local manufacturing plants, especially those located in the suburbs of the main cities – where the protests initially started. Given the technological gap between foreign and local production, it is impossible for Syria to compete.

The most remarkable shift in the structure of imports occurred as luxury consumption items began to rise in share and absolute quantity in the composition of imported goods. Over time, imports as a share of GDP rose (it doubled from a plateau of around 20 per cent during the early 1970s to about 40 per cent in the late 2000s) while conspicuous consumption items eclipsed the part of imports that could be sued to bolster national industry (World Bank, various years). In point of fact, dies and moulds as percentage of total imports had witnessed a decreasing trend during 2000–10 (*UN Comtrade Database*, various years). Although small as a share of imports, this trend signifies that the tools needed for the production of machines (productive resources) and for the modernisation of industry (investment in science and technology) had been deteriorating.

3.3 Privatisation of state farms

The Bashar regime promulgated a series of decrees that privatised state farms between 2000 and 2005 (Ababsa, 2006). Decision 83 of 2000 was promulgated to privatise state farms in the north after 40 years of collective ownership (since 1958). Shares of three hectares for irrigated and eight

hectares for non-irrigated land were sold off to the 'public.' Apart from the traditional landlords, the primary beneficiary of this counter-reform was a re-emergent class of latifundists tied to the state and to the Alawite ruling elites (Ababsa, 2006). With counter land reform, land became scarce to the peasants, who were forced to seek seasonal or even permanent work away from the countryside, particularly in the urban informal sector.

3.4 Lifting of price controls and subsidies

The pricing system moved away from social pricing of basic commodities or centralised pricing, toward market pricing. 85 per cent of consumer products were subject to market pricing, while the state administered the remaining 15 per cent (interview with the Ministry of Economy and Trade, 2007). The lifting of price controls on basic commodities, such as milk, vegetables, and other essentials allowed merchants to abuse price liberalisation. Merchants had free rein to raise prices as they wished, thus increasing their profit margins. The consumer price index on bread and cereal, meat, and vegetables, increased by 50.9 per cent, 58.6 per cent and 23.1 per cent, respectively over the period 2006–10 (Central Bureau of Statistics, 2011). However, because Syria's inflation data is doctored, it is very likely that these figures are underestimates (Barout, 2011: 103).

As advised by the IMF, the Syrian state in 2008 phased out subsidies on petroleum products to streamline budget expenditure and introduced ration cards and coupons to help poorer households purchase diesel at discounted prices. The import, distribution, and sale price of oil derivatives had been administered by the state for four decades. Following the removal of subsidies, gasoline, and diesel prices increased by 33 and 240 per cent respectively in 2008 (IMF, 2009a). Initially, the Syrian government kept the standard bus fares – that were initially fixed by the Ministry of Tourism – unchanged. . Bus drivers protested against keeping commuter bus fares fixed. Instead of reversing the decision on the removal of subsidy, the authorities tripled the commuter fares (The Syria Report, 5 May 2008), adding upward pressure on the daily costs of the Syrian poor.

3.5 Private banking system

The private banking law was promulgated in 2001, allowing the establishment of private banks for the first time after 40 years of a state-controlled banking system. Six private banks were established: Bank of Syria and Overseas (BSO), Bank BEMO, Bank Audi, the International Bank of Trade and Finance, Arab Bank, and Byblos Bank. Their combined deposits were estimated at USD 30–50 million at the time of privatisation, which then increased to USD three billion in 2007 (Moubayed,

2007). Initially, there was a restriction on foreign ownership of bank shares. Syrian nationals and companies were required to own 51 per cent of shares in any of these banks. The ruling elites and the commercial bourgeoisie, such as Rami Makhluf, Nader Qalai, Issam Anbouba, and Samir Hassan – rather than competitive market bidders – turned out to be the main shareholders (*The Syria Report*, 17 January 2010). This 51 per cent ceiling was later relaxed and an increase in the share of foreign ownership was allowed. During the Bashar regime, more than 20 private banks operated alongside the specialised public banks (the Real Estate Bank, the Agricultural Cooperative Bank, and the Industrial Bank).

The activation of private banking was crucial for the state bourgeoisie. It enabled them to manage their bank accounts and easily transfer their money deposits outside the country. Previously, they had to smuggle or transfer their wealth into the dollar and store it in the Lebanese private banks. (IMF, 1975: 102).

Bank loans provided by private financiers remained very limited. Table 6.1 shows that the average credit given out by the commercial private banks during 2008–10 amounted to only 16 per cent out of total local bank credit; whereas that of the public banks amounted to 82 per cent of the total. During the Bashar regime, the private bank credit was limited to usury-like transactions and did not finance industrial and developmental projects.[7] Loans were given out on the basis of collateral against a new investment project rather than based on the achievements of the project. Because they failed to finance long-term investment, the Syrian private banks proved to be similar to the shallow financial institutions of most Arab countries in the sense that not only are lending operations conducted on a short-term basis, but they require huge collateral and guarantees. Table 6.2 shows that the average of total local bank credit given out to agriculture and industry accounted for

Table 6.1 Distribution of local bank credit according to type of credit in millions of Syrian pounds, 2008–10

	2008	**2009**	**2010**	**Average 2008–10**	**Average share**
Public Banks	745,224	857,599	945,689	849,504	82%
Commercial Private Banks	110,895	149,285	224,306	161,495	16%
Islamic Banks	14,176	21,331	43,210	26,239	3%
Total Credit	870,295	1,028,215	1,213,205	1,037,238	100%

Source: Central Bureau of Statistics, 2011.

Table 6.2 Distribution of local bank credit according to type of economic activity in millions of Syrian pounds, 2008–10

	2008	**2009**	**2010**	**Average 2008–10**	**Average share**
Agriculture	96,286	140,026	149,092	128,468	12%
Industry	45,090	78,100	101,980	75,057	7%
Building and construction	113,260	142,724	176,986	144,323	14%
Commerce	490,901	515,129	575,386	527,139	51%
Other activities	124,759	152,237	209,761	162,252	16%
Total	870,295	1,028,216	1,213,205	1,037,239	100%

Source: Central Bureau of Statistics, 2011.

only 12 per cent and 7 per cent respectively during 2008–10. In contrast, 51 per cent was given out to the commercial sector.

The neglect of productive sectors in state policy in the 1990s and 2000s was accompanied by a shift in state banks' lending operations from development investments to short-term commercial activities (Kanaan, 2000: 128). While the Industrial Bank was literally frozen during 1991–98, the amount of loans provided by the Commercial Bank of Syria to both public and private sectors doubled (Haddad, 2004: 59). The state banking sector was then criticised for its weak banking tools and its inability to finance developmental projects,[8] while in fact the blame should fall on state policies that were supportive of commercial sectors instead of the productive ones.

3.6 Monetary policy

Under tightly regulated capital accounts and fixed exchange rates, monetary policy was a sovereign state policy for more than 30 years. Expansion of the money supply was tightly controlled by the Central Bank during the 1960s and the spread between the saving and lending rates balanced savings and investment. Money creation was basically within the purview of the state, and only an unsustainable shortage of foreign exchange could trigger inflation. However, one must note the usage of the official exchange rates (the overvalued rate) was undertaken for the purpose of subsidising the necessary consumption bundle of the working population: if foreign exchange rises, the over-valued official rate does not change allowing the same amount of Syrian pounds to be exchanged for the foreign currency, and hence, buying the same amount for effectively fewer pounds. One can also discern that in such a tightly controlled system, inflation would rise at a rate roughly commensurate

with the ratio of imports to GDP – that is, how much Syria buys from abroad in foreign currency. But hyperinflation like what happened in the mid-1980s could only occur as a result of illicit outflows in the national currency.

The state banks lent to the public sector at a rate lower than the market rate of 7 per cent, while they lent private investors at a much higher rate (interview with the Ministry of Economy and Trade, 2007). The Central Bank managed the interest rate only to direct state transactions rather than to maintain a cap on inflation or to hold capital flows in check. It managed the interest rate to finance state-led investment in strategic sectors at concessional terms, according to a pre-determined credit allocation plan.

The Credit and Monetary Council (CMC) that has been responsible for conducting monetary policy operations during the liberalisation phase lowered the interest rate on saving deposits for the first time in 2003 – after holding it constant at 7 per cent for 22 years. Interest rates on loans were also reduced in order to stimulate financial intermediation between savings and investment. However, the CMC gave private banks the option to set their own rate on credit facilities (interview with Ministry of Economy and Trade, 2007).

Interest rate reduction did not transmit policy signals into changes in money supply and investment. As mentioned in Chapter 2, the risk factor holds primacy when deciding on investment and as such, the influence of interest rates diminishes when issues of risk and uncertainty are taken into consideration. Moreover, because the private banks were allowed to raise their own rates on lending – as in any other private banking system – private financiers made use of the difference between the official rate and the private lending rate to raise their earnings. In shallow financial markets in which lending for the purpose of finance is limited, lowering the interest rate does not implicate investment demand.

3.7 The issue of privatisation

For many years, strategic economic sectors, such as petroleum and mining, electricity, cement and steel manufacturing, glass, and paper were publicly owned. Privatisation of state-owned enterprises was a very sensitive issue in Syria, given that it would add to the then inflated army of unemployed people. The public sector was criticised for its weakness due to its low level of technological upgrade, its shortage of raw materials, and its compilation of obsolete and archaic equipment that was rarely updated or replaced (Dalila, 2000 and Sukkar, 1994: 29). Despite these limitations, the public sector absorbed a large percentage of the labour

force in keeping with the regime's populist measures. Employment in the public sector was used as a patronage tool by the regime to cultivate its social base of support during the 1960s and 1970s. The regime's fear in 2000 was that, if privatisation proceeded, it would not be able to handle the problem of layoffs as unemployment escalated. No set of decrees was issued to encourage the privatisation of state-run industries.

Reddawi and Al-Zaim called for public-sector reforms. Reddawi (2007) recommended that strategic state-owned enterprises or those that generated profits for the state must remain in the hands of the state, whereas those that were losing and represented a drain on public finance should be sold off, partly to their employers and partly to private capital. Out of 260 state-owned companies, only 20 then generated profits for the Ministry of Finance. These included large organisations, such as the Syrian Petroleum Company, the Syrian Telecommunications Establishment, the Commercial Bank of Syria and the General Organisation of Tobacco. All other firms were either losing or breaking even. Maintaining the public sector in Syria was essential for political and economic reasons. According to Al-Zaim, as long as Syria faced external political threats from Israel and the West, the public sector had to be maintained (Al-Zaim, 2001). In case of conflict, the state could ensure the supply of basic goods and necessities through its industries. Against this backdrop, Syria resorted to outsourcing management to private investors as an alternative to privatisation (interview with State Planning Commission, 2007).

However, the state's invitation for private sector participation culminated in the state bourgeoisie indirectly owning these enterprises. In hindsight, when selective public firms (e.g. telecommunications, production and refining of sugar, generation and distribution of electricity, oil and gas industries, and the cement industry, tourism and transport) were handed out to private investors (*The Syria Report*, 1 November 2005 and 1 July 2004), the state bourgeoisie and their affiliates along with other big commercial businessmen were the main owners and investors.

4 The implications of investment reforms during Bashar and Hafiz regimes

As discussed in Chapter 1 (see Figure 1.6), following investment liberalisation, GFCF as percentage of GDP registered 22 per cent during the 1990s and 21 per cent during the 2000s.[9] This is compared to 21 per cent during the late 1980s. This shows that investment reform Law No. 10 had hardly had any impact on overall investment rate. Private-sector-led investment could not push overall investment to rates higher than those achieved by the public sector during 1975–79 (31 per cent), despite the

privileges and guarantees that were given out to private investment. So, when public investment receded as a result of market liberalisation, private investment could not fill the gap and achieve the high investment rates needed to build Syria's productive capacity.

Executed investment projects under Law No. 10 and LD No. 8 generated 105,467 job opportunities during 1991–2008 (SIA, 2008). The Syrian State Planning Commission estimated that new entrants into the labour market averaged 214,000 per year during 1999–2003. With an average of 162,000 jobs provided by the economy during that period, the average number of unemployed amounted to 52,000 per year (State Planning Commission, 2005: 36). Al-Zaim also noted that the private sector significantly failed to create sufficient job opportunities for the new entrants into the labour market per year (interview with Al-Zaim, 2007). The Syrian Agency for Combating Unemployment (ACU) echoed the same concern (interview with ACU, 2007). The ACU pointed out that most of these projects were small-scale investments that were family based; that is, they recruited family members and hardly employed anyone from outside the family.

4.1 Law No. 10's contribution to industrial activities

In 2007, the antagonism between industrialists and merchants had spread to their respective chambers: those of Industry and Commerce, respectively. When I visited the Ministry of Industry for discussions about Law No. 10, the disgruntled official made it clear that the law did not induce industrial investment. In our discussion, I asked for evidence as to the impact of the law on industry, I was provided with data that showed that Law No. 10 only contributed to 1 per cent of total private industrial investments since its enactment, while the majority of industrial projects were associated with the old law of 1958. I was fortunate to get hold of this data.

Figure 6.1 shows that the bulk of industrial establishments were artisanal projects – as is common in developing countries – constituting 76 per cent of the total. The remainder comprised 23 per cent of industrial establishments that were accomplished under the old Law No. 21 of 1958, whereas a minute 1 per cent of the total were implemented under Law No. 10. These figures show clearly that Law No. 10 failed to galvanise the necessary environment for industrial investment.

Manufacturing output did not exceed 10 per cent of total value added in the 1990s and 2000s (UNIDO, 2014) and remained concentrated in light finishing industries and low-quality investment. Because the average investment rate remained almost constant after liberalisation and the manufacturing share of value-added production was low, the bulk of

investment was clearly going into the tertiary sector, such as services, construction, and real estate. During my field work interviews with the State Planning Commission and the Chamber of Industry, the message conveyed was that industrial activities were not promoted despite investment liberalisation. State officials agreed that Law No. 10 failed to promote investment projects that could contribute to value-added production, adequate employment creation and export promotion.

In addition, Table 6.3 shows that the majority of industrial projects licensed by Law No. 21 of 1958 were food and textile – 32 per cent and 51 per cent, respectively – producing knitwear, outerwear, processed food, soft drinks, and biscuits. The engineering and chemical projects licensed by Law No. 21 produced shampoos, pharmaceuticals, cosmetics, toys, shoes and plastic items that almost totally addressed to consumer demand (interview with Ministry of Industry, 2007).

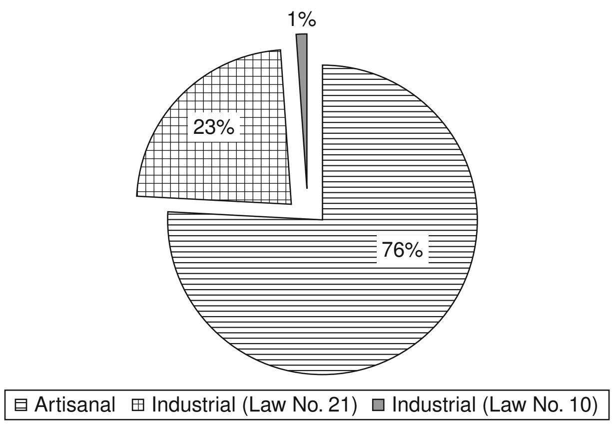

Figure 6.1 Number of private industrial establishments up to 2005
Source: Computation based on data compiled from the Ministry of Industry.

Table 6.3 Distribution of private industrial establishments according to type of industrial activity till 2005 (%)

	Artisanal projects by handicraft law	**Industrial projects by Law No. 21**	**Industrial projects by Law No. 10**
engineering	89	10	1
chemical	70	29	1
Food	67	32	1
Textiles	49	51	0

Source: Computation based on data compiled from the Ministry of Industry.

4.2 Distribution of investment projects of Law No. 10 by economic sector

The distribution of investment projects by economic sector licensed under Law No. 10 during 1991–2005 shows that the transport sector attracted the highest share of all projects during those years (see Figure 6.2). During 1991–2005, transport projects accounted for 60 per cent of the total, followed by industrial projects (37 per cent) and agricultural projects (3 per cent).

Data on the sectoral distribution of investment is not rigorous, because of the lack of a central governing agency that gathers and keeps records of the newly licensed projects. Local and foreign investors had to go through different state agencies in licensing their projects, depending on the economic sector. For instance, the Higher Tourism Council is responsible for licensing investments in the tourism sector; while tourism projects were also slotted under LD N0. 7 and LD No. 8 through the operations of Holding Companies (Barout, 2011). Moreover, investments in the manufacturing sector can be licensed either through the SIA or through the Ministry of Economy and Trade.

According to SIA data, a total of 3,576 projects was licensed under Law No. 10 from 1991 to 2006 (see Table 6.4). Their total capital cost stood at S£1.094 trillion (USD 21.45 billion) (SIA, 2007). Out of these approved projects, 2,480 (or 69 per cent or total projects) were implemented. Fifty-nine per cent of these *implemented* projects were conducted in the

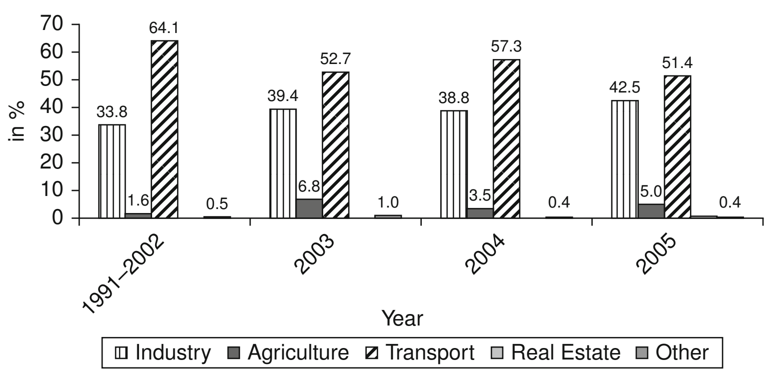

Figure 6.2 Investment projects licensed under Law No. 10 of 1991 by economic sector, 1991–2005

Source: Computation based on SIA data compiled from fieldwork.

Table 6.4 Licensed and executed investment projects under Law No. 10 by economic sectors, 1991–2006

	Agriculture	**Transport**	**Industry**	**Other**	**Total**
Number of Licensed Projects	148	1,931	1,472	25	3,576
Number of executed – or under execution – ones	69	1,460	938	13	2,480

Source: Computation based on data taken from SIA, *Annual Investment Report* 2007.

transport sector alone. This was done at the expense of the industrial projects whose share stood at 38 per cent for the period 1991–2006 and whose implementation capital costs remain unknown (refer to Table 6.4).

The question arises: why did investors choose the transport sector? Law No. 10 had considerable impact on short-term activities in the transport sector (Reddawi, 2001 and Khoury, 1999). The total cost of executed projects licensed under Law No. 10 in the transport sector during 1991–2006 was only S£52.3 billion (generating only 34,928 jobs) (SIA, 2007: 50), indicating that these executed transport projects over the 15-year period were only small projects that did not entail high sunk costs. Al-Zaim and Basil explained that Law No. 10 had a crucial limitation because it treated all economic sectors equally in terms of privileges and exemptions, including the financial ones. As a result, the new commercial bourgeoisie made use of these privileges to pursue their commercial and short-run types of investment (fieldwork interviews with late Issam Al-Zaim and Maged Basil, 2007). While the Syrian Ministry of Transport used Law No. 10 to conduct a few transport projects that improved the basic infrastructure, private investors, specifically the merchants, had different aims. They abused the incentives given out by the Law for their personal profit (Hopfinger and Khadour 1999: 66).

During the 1970s and 1980s, private cars were import-prohibited. The government charged a high rate of customs duties.[10] Cars and vehicles could only be imported by state-owned enterprises. Exemption for one-off importation of a vehicle was only provided to a state bourgeois, a high-ranking military officer, a disabled person, or a Syrian who had spent more than ten years outside Syria (Hopfinger and Khadour, 1999: 65). Local merchants made use of law No. 10 to circumvent the state monopoly on car imports, importing cars for private use and leasing. They took advantage of the Law's lifting of tariffs on imported cars and brought in huge numbers of cars under the guise of car rental agencies

and promotion of tourism. However, these cars were either put to private use or rented out long-term to local citizens, instead of being rented out to tourists (EIU, 1992: 16). As a result, merchants earned profits out of this short-run and commercial type of investment.

These cars were falsely recorded as investment and capital goods in national accounts book-keeping. They were mistakenly counted as productive resources that were used in the production process, while actually they were used for consumption (interview with Basil, 2007). This explains why the investment rate rose in the early 1990s as opposed to the late 1990s, as was pointed out in Chapter 1. By the end of 1995, a total of 16,199 vehicles had been imported into the Syrian economy, of which 48.1 per cent were private cars, 17.5 per cent were minivans and microbuses, 6.8 per cent were freight haulage, and 4 per cent were coaches. These cars were purchased as part of a 'rent-a-car' business (*Central Bureau of Statistics*, 1995: 483).[11] Basil pointed out that listing cars as investment items in accounting books is a major shortcoming. He stated that although consumer durables, such as private cars, television sets, refrigerators, and other home appliances have an expected lifetime of more than a year; they cannot be counted as fixed assets in national accounts (interview with Basil, 2007). These figures, therefore, disguised reality and gave a false impression of how well the economy was performing. Around the late 1990s, the state intervened to correct this crucial problem in investment law. It banned the car rental agencies from importing cars. It allowed for the import of commercial vehicles, minibuses, and microbuses free of customs duty only if they were to be used as part of investment projects. Law No. 10 therefore benefited the new commercial bourgeoisie at the expense of the industrial bourgeoisie.

In the mid-1990s, the new commercial bourgeoisie looked for opportunities in the private sector to invest their excess savings. At the time, a personalised scheme by a group of investors, except for the 'money gatherers,' was acting as a pipeline channelling for money savings into investment. They wanted to make use of investment Law No. 10 to invest the savings in holding companies. However, within the state bourgeoisie, there was a group of 'reformers' – known for their ostensibly leftist views and their opposition to complete market liberalisation – who objected to the development of such personalised investment schemes into an officially recognised corporate structure. In 2000, the tables turned in favour of the 'money gatherers,' who were able to acquire through LD No. 7 of 2000 the status of an anonymous company enjoying the same rights as a shareholding company (Barout, 2011: 63–64). The prominent

holding companies that were created in the mid-2000s, and that enjoyed the rights of a shareholding corporation were the Cham and Souria Holding Companies and (later) the Syria-Qatari Holding Company that was created by LD No. 8 of 2007. Cham Holding Company was technically owned by Rami Makhluf and Mohamad Sharabati (Ibid: 67).

The establishment of these holding companies had the complete support of the state. And it was through these holding companies that the state bourgeoisie managed to conduct private business with the new commercial bourgeoisie.[12] The main investments of these holding companies were in real estate, banking, hotels, restaurants, and other services. Haytham Joud, the biggest shareholder of Souria Holding Company, rated the trade sector as the first sector to be chosen for investment by the holding companies, followed by tourism and then industry (Ibid: 69–73).

These holding companies and overall investment liberalisation failed to repatriate a large amount of Syrian capital, estimated to be USD135 billion, that were transferred to neighbouring countries like Lebanon, Jordan, and Turkey and other international countries during the 1970s and 1980s (Ibid: 44).

4.3 The divide between industrialists and merchants

One of my main observations during my field trips to Syria was the antagonism between merchants and industrialists. Although the Chamber of Commerce denied that there was such an antagonism, the Chamber of Industry raised this concern (interviews with Chamber of Commerce and Chamber of Industry, 2007). For 15 years, industrialists and merchants fought over Law No. 10. The big merchants managed to find means to exploit the Law and run their own monopolies and quasi-monopolies in certain economic fields, such as telecommunication and services.

During the Assad regime, the state cooperated more with the Chamber of Commerce than with the Chamber of Industry or the Artisan Cooperatives. While the industrialists were unable to voice their concerns and demands to the state until the mid-2000s, the Chamber of Commerce had always been a powerful institution and had access to cabinet decision-making (Chamber of Industry interview, 2007). It was a place where businessmen met and were either lured or manipulated by the regime elites, or they played their own cards and tried penetrating the elites (Haddad, 2004: 47). An official at the Chamber of Commerce argued that, although Syrian industrialists were exposed to international competition as a result of market liberalisation, this

would serve as inducement for them to improve the quality of local production (interview with Chamber of Commerce, 2007). According to him, industrialists were also willing to enlarge their businesses if new opportunities unfolded following enhanced trade liberalisation. In contrast, the Chamber of Industry stated that if anything, trade liberalisation was detrimental to the local industry. The new Syrian commercial bourgeoisie imported low-priced consumer goods to be sold in the Syrian market, harming local production. These import operations hurt not only the small-scale private manufacturers, but also the state-sponsored industrial firms (interview with Chamber of Industry, 2007). The dumping of Chinese imports by Syrian merchants created unfair competition with local industrialists, because Chinese textiles were transited through Dubai and other Arab countries that apply no custom tariffs on textiles. This depressed prices in the local market and caused severe losses to Syrian manufacturers (interview with Chamber of Industry, 2007). In 2009, the Ministry of Economy and Trade issued a decree to ban all imports of Chinese products that were not imported directly from China (*Syria-news*, 2009).

4.4 LD No. 8 of 2007 boosted investment in real estate

As mentioned earlier, LD No. 8 – like Law No. 10 – failed to prioritise the productive sectors and to grant subsidies and tax concessions exclusively to industrial and agricultural projects, that could have channelled economic resources into modern sectors with the potential for economies of scale and global competitiveness. LD No. 8 reinstated more private ownership – the ownership of land – and thereby served the private interests of the ruling elites and their allied new commercial bourgeoisie. Again, the state failed to address major limitations in the investment reform laws, and market liberalisation was hence bound to benefit a certain group of society at the expense of others. Because LD No. 8 of 2007 allowed local and foreign investors to own land, Gulf money poured into real estate. Al-Zaim pointed out that investments executed under Law No. 10 flowed into the transport sector (private car rentals) while those executed by LD No. 8 flooded into real estate (interview with Al-Zaim, 2007). According to him, the new LD is not an improvement on the previous investment law, which was amended expressly to induce investment in real estate.

Gulf investors placed their funds, which were earned from the oil windfall of 2002–08 oil boom, in the real-estate sector, because speculation on real estate offered high and quick returns over the short to medium term (Barout, 2011). A few Gulf investors also conducted commercial

activities that were profitable over the short term. The most prominent was the Syrian-Qatari Holding Company, which was established at the end of 2007 by LD. No. 8 with a capital of S£ 250 billion (SIA, 2007). Its investment activities concentrated on real estate, banking, hotels and restaurants, and other services. Speculation on land property prices culminated in a real estate boom in Syria – and other Arab countries – in the late 2000s (UN, 2009). Housing prices increased by 30 per cent every year during 2003–06, while in 2009, they increased by 40 per cent compared to 2008 (Seifan, 2011: 5). Similarly, the sale and rental price of office space in central Damascus increased significantly in 2009, with the average rental cost increasing by 24 per cent in the third quarter of 2009 compared to the same quarter in 2008. Meanwhile the sales price of retail space increased by 40 per cent in the third quarter in 2009 compared to the same period in 2008 (*The Syria Report*, 26 April 2010). According to a survey conducted by Cushman & Wakefield, Damascus registered eighth among the most expensive cities in office rental prices (*The Syria Report*, 12 October 2009). While the real estate boom played a crucial role in enriching the Syrian rich, it was harmful to those with lower incomes. Because workers' incomes could not stretch to cover the increase in rental prices, they were unable to obtain decent housing.

4.5 Law No. 10's impact on foreign direct investment

A total of 226 foreign projects were licensed to operate under investment law No. 10 of 1991 and LD No. 8 of 2007 during 1991–2007. The total cost of these licensed projects was S£ 442,795 million (SIA, 2007), constituting only 13 per cent of total GFCF for the period 1991–2007 (see Table 6.5). However, the value of executed FDI projects accounted for 3 per cent of total GFCF during 1991–2007 (see Table 6.5). The oil and gas and tourism sectors were the largest recipients of foreign investment. During 2004–08, the highest average shares of total FDI inflows were recorded in the oil and gas and tourism sectors – attracting 29 and 34 per cent respectively (see Table 6.6). Foreign investors, especially US firms, had been investing in the Syrian oil sector since the 1970s. This kind of foreign investment into the primary sector – commonly known as resource-seeking investment – is non-employment generating and non-developmental.[13]

Against this backdrop, the bulk of investment activities during the Hafiz and Bashar regimes were non-manufacturing types. In contrast to the state-led investment that remained mainly within the purview of the state during the 1960s and 1970s, the process of capital accumulation during the Assad regimes shifted into a path of dependency

Table 6.5 Licensed and executed local and foreign projects under Law No. 10 of 1991 and LD No. 8 of 2007, 1991–2007

	No. of projects		**Investment Costs in million of Syrian pounds**	
Licensed Projects	Local investment	3,762	1,494,800	Execution %
	FDI	226	442,795	
Executed Projects	Local investment	2,556	not available	68%
	FDI	117	93,489	52%
Total GFCF for period 1991–2007 in million of Syrian pounds			3,272,663	

Source: Computations based on data from SIA, *Annual Investment Report* 2007 and Central Bureauof Statistics, *Syrian Statistical Abstract*, 2008.

Table 6.6 FDI inflows by economic sectors in millions of USD, 2004–08

	2004	**2005**	**2006**	**2007**	**2008**	**Average 2004–08**	**Average share**
Oil and gas	157	100	111	282	600	250	29%
Tourism	60	300	225	385	490	292	34%
Licensed by investment law No. 10 and decree No. 8	13	55	92	110	250	104	12%
Insurance	0	0	93	40	23	31.2	4%
Private banks	45	45	64	130	28	62.4	7%
Capital increase of banks	0	0	15	30	22	13.4	2%
Others	45	83	59	265	54	101.2	12%
Total	320	583	659	1,242	1,467	854.2	100%

Source: SIA, Annual Investment Report, 2009.

on money-money circulation (M- C-M′) rather than commodity-money circulation (C- M- C′), precipitating a crisis in capital accumulation. Industrial investment needed to build the economy's productive capacity and absorb the new entrants into the labour market was left to face its ill-fated deterioration. All investment liberalisation laws and

amendments ratified during the Assad regimes were premeditated measures to consolidate the wealth and power of the ruling minorities. They enabled the new agent of investment to secure more private ownership and to promote ephemeral, mercantile-type investment activities for quick returns.

5 The socioeconomic roots of the Syrian uprising of 2011

In retrospect, all the social conditions prevailing in Syria would have contributed to the uprising. Social unrest erupted in Syria partly because of years of poor developmental outcomes and the loosening grip of the ruling class on the state. The wide-ranging neoliberal reforms led to the slowing of economic development and exacerbated social problems of unemployment, poverty, and the worsening of living conditions. When the state bourgeoisie relinquished its part of the social contract by depleting the resources hitherto destined for the working class and, in particular, the peasantry, it also set in motion a poverty dynamic that would act as a catalyst to the revolutionary process. Grievances had built up against the regime and its vassals across the broad spectrum of wage workers as well as in the countryside. However, the insurrection began in rural areas. The first inflamed state, Dera'a, had suffered from severe droughts, low investments in agricultural infrastructure, and rising input prices that strangled the farming community. By favouring the new commercial bourgeoisie, the state bourgeoisie had not only neglected the peasantry during the Hafiz and later the Bashar regimes, but had also pauperised them in order to cheapen resources it drew from the rural areas. The exodus from the villages to the city encountered unemployment and further downward pressure on wages. Rural unemployment may have risen only slightly in the official records as result of poorer investment and output, but the real unemployment rate soared, as a result of rising poverty-level employment in the informal sector. Working peasants cannot resort to state unemployment benefits and will engage in poverty-level employment to make ends meet (Kadri, 2012b). Falls in crop production and the rise in the cost of production associated with the rise in the price of fuel due to the lifting of subsidies had ravaged the wealth of the farmers. The resultant falling behind in living conditions also put cruel pressures on the community and on family members, generating further disciplining and discrimination against the vulnerable, especially women. In what follows, I summarise the social, economic and agrarian underpinnings of the Syrian uprising.

5.1 Rising unemployment and poverty

As explained earlier, private-sector-led investment following economic liberalisation was not socially responsible. It was not good-quality, high-capital-output investment – that is, in manufacturing. Manufacturing is the backbone of development, and in developing countries such as Syria, labour demand is derived from development. Manufacturing investment had been low since the 1980s. The manufacturing share of total value-added was 8 per cent in 1989, dropping to 6 per cent in 1995, then further to 2 per cent in 2000. In 2011, the year of the uprising, this share was only 5 per cent (UNIDO, 2014). Economic growth during the Assad regimes (Hafiz and Bashar) was primarily rent-based, relying on oil export revenues, geopolitical rents and capital inflows including remittances.[14] During 2000–08, Syria experienced an average economic growth rate of 5 per cent (Central Bureau of Statistics, 2011), mostly attributable to the second oil boom of 2002–08 and to the reopening of the Iraqi oil pipeline in 2000, when Syria became the main route for Iraqi oil to be exported outside the UN-controlled oil-for-food programme.[15] GDP per capita grew at an annual rate of 2.4 per cent during 2000–07 (World Bank, 2014). Nevertheless, this rent-based growth was anti-developmental. The new agent of investment under the Assad regimes promoted artisanal and low-quality investment in services, real estate, transport and family based projects that served private as opposed to public interests.

Rising unemployment and poverty in Syria (as elsewhere) are a result of long-term contraction in manufacturing investment. Many workers were pushed into the informal sector due to the private sector's inability to generate jobs. In 2009, the Central Bank of Syria reported the unemployment rate to be 8.2 per cent, while Syrian economists estimated the rate to be 16.5 per cent (Barout, 2011: 114). However, youth unemployment was more than twice total unemployment and remained at double-digit levels (see Table 6.7). Female unemployment reached 37.1 per cent in 2011 (Central Bureau of Statistics, 2011). As a result, workers in the informal sector during 2000–07 amounted to 30 per cent of total non-agricultural employment (Jütting, J. and de Laiglesia, 2009).

According to UNDP figures, the poverty rate was 30.1 per cent in 2003–04, representing 5.3 million individuals (UNDP, 2005). It increased to 34.3 per cent in 2010 (representing 7 million people) (El-Laithy and Abu-Ismail, 2010).

5.2 Social polarisation

A marked effect of Syria's transformation to the market economy was the redistribution of wealth from lower income groups to higher-income

Table 6.7 Total and youth unemployment rates in Syria, 2007–11

	Total unemployment rate	Youth unemployment rate
2007	8.4	19.1
2008	10.9	22.4
2009	8	...
2010	9	20
2011	14.9	35.8

Source: United Nations Statistical Abstract of the Arab region, 2013.

ones. In effect, the reform package hurt the poor and swelled the assets of the rich in dollars. The share of wages in the national income was less than 33 per cent in 2009, compared to nearly 40.5 per cent in 2004, implying that profits and rents to the capitalists constituted more than 67 per cent of the GDP (Marzouk, 2011). Income inequality between the rich and the poor widened and social differences increased. The Gini index increased from 0.33 in 1997 to 0.37 in 2004 (UNDP, 2005). The illegal enrichment of the ruling elites was blatant (Perthes 2004b).

According to UNDP, the poorest population – the bottom 20 per cent – consumed only 7 per cent of all expenditure, while the richest consumed 45 per cent (UNDP, 2005). In 2009, the average household expenditure was S£31,000 per month (approximately USD 653), of which S£14,000 (approximately USD 295) was spent on food (Central Bureau of Statistics, 2009). Nearly 71 per cent of Syrian workers were earning less than S£13,000 (approximately USD 274) a month, which indicated that the majority of wage-earning people were barely surviving (Central Bureau of Statistics, 2009).

5.3 Dampening of purchasing power

As mentioned earlier in the chapter, the rise in prices of basic food items and necessities was harmful to the Syrian workers. During my field trips to Syria, local experts claimed that this was a demand-pull inflation (interviews with officials at the State Planning Commission and the Ministry of Economy and Trade, 2007). The 1.5 million Iraqi refugees who poured into Syria starting in 2003 were blamed for pushing up demand, thereby raising food prices. Other state officials argued that increased prices were due to seasonal shortages in the supply of basic goods, because of cold weather, droughts and bad seasonal harvest – or even a drop in imports from Jordan and Lebanon (interviews with Ministry of Economy and Trade and State Planning Commission, 2007).

However, the Central Bureau of Statistics assured me that there had been no shortage in the supply of basic goods in the market and that the seasonal weather effects had not prohibited the economy from achieving self-sufficiency in basic food production (interview with Central Bureau of Statistics, 2007). This self-sufficiency would therefore have offset demand-pull inflation. If increase in demand from the Iraqi refugees was really the reason behind the increase in prices, then it would have been compensated by an increase in the supply of goods. This compensation in supply would then offset the increase in prices and the demand-pull inflation would have been short-lived.

The situation on the ground was different. Merchants took advantage of the lifting of state controls and tightened the supply of goods. They created supply shortages and forced scarcity in the market that pushed up prices of basic commodities, raising their profit margins. In the absence of state monitoring, they created monopolies and quasi-monopolies and reduced supply levels, which added pressure on prices (interview with Al-Zaim, 2007). As a result, the inflation rate stood at 73 per cent during 2000–10 (World Bank, 2014). Moreover, because of the phasing out of subsidies on oil products, the price of food increased by 38.2 per cent in the period between 2006–10, whereas the price of electricity, gas, and other fuel oils rose by 102.3 per cent during the same period (Central Bureau of Statistics, 2011). Through my own observations and from discussions during my field work, I was able to conclude that the inflation rate in essential commodities is at least three times the official rate. This, however, is a guesstimate. During my discussions with Al-Zaim, Marzouk and Al- Za'tari, they also confirmed that the real inflation rate is several times the official rate. There are anomalies one may deduce from the Penn tables published by the University of Pennsylvania that confirm this observation. In these tables, the PPP GDP of Syria for the years 2006–10 is lower than the real GDP computed in international dollars. Goods in Syria cost more than on the international market due to inflation and price mark-ups. This is an occurrence that could only arise from overpricing essential commodities, especially food in a food producing country. Mr. Barout, who for a long time was a high-ranking state official in Syria, confirms that the inflation rate is the item that is subjected to the worst forms of doctoring by the Syrian Authorities (Barout, 2011: 103 and 104) He continues to state the obvious, which is that the purpose of lowering the inflation rate is to embellish the economic performance of the regime.

Trade unions that had fought for better wages and rights were co-opted during the Assad regime and transformed into quasi-corporatist

institutions closely integrated into the state apparatus (see Chapter 4). In the absence of effective trade unions to fight for social safety nets, the process of market liberalisation had entailed an undesirable social cost for the wage-earning working class. Although the authorities raised the wages of civil servants, military personnel and employees of the state-owned companies during the 2000s, real wages remained behind inflation and the purchasing power of the poor shrank (Seifan, 2009: 13).

5.4 Deteriorating living conditions in the countryside

In the process of economic liberalisation, both Hafiz and Bashar put aside the interests of the farmers. They endorsed austerity measures against the agricultural sector, cutting down government expenditure on agriculture infrastructure to mitigate water shortages. As advised by the IFIs, government subsidies on inputs of production (fertiliser, diesel fuel, electricity, and seed) were also phased out, forcing farmers to cultivate less or abandon their crops altogether, as they were unable to finance the cost of production. Many herders sold their livestock at reduced prices because of vegetation dwindling in pastures and the exhaustion of feed reserves.

The regime's neglect of the agrarian sector was accompanied by harsh climate conditions. During 2006–11, 60 per cent of Syria's land suffered from severe drought, pushing 2 to 3 million Syrians into extreme poverty. The southern, southeastern and northeastern regions suffered from erratic rainfall as a result of continuing droughts. The top four wheat producers, Al-Hasakah, Ar-Raqqah, Aleppo, and Deir Ezzor, were primarily affected by poor rainfall. According to the FAO, wheat and barley yields dropped by 47 and 67 per cent respectively in 2008 as compared to 2007, and Syria had to import wheat for the first time (IRIN, 2009a). In 2011, wheat yields dropped by 82 per cent, thereby reducing the ability of families to meet their daily food requirements. Health problems, crop failure, food insecurity, and migrations were among the many social consequences of the drought. Farmers were unable to cultivate food and raise enough income to feed their families. In the Northeastern region, 75 per cent of farmers suffered from total crop failure and herders lost 80 to 85 per cent of their livestock, affecting 1.3 million people (IRIN, 2009b). It is estimated that 330,000 job opportunities were lost as a result of harsh climate conditions during 2003–09. There is no accurate figure on the number of farmers, herders and agriculturally-dependent persons who left the countryside; however it is estimated that one million had migrated by 2009, adding pressure to the cities that were already strained by the influx of Iraqi refugees.

Poverty became more prevalent in the countryside, as the rate reached 62 per cent in 2003–04 (UNDP, 2005), with the northeastern region, both rural and urban – Aleppo, Al-Hasakeh, Deir Ezzor, Idlib, and Al-Raqqa – absorbing the highest number of the poorest (GAR, 2011). Poverty levels also increased in the rural areas of the south, as in Dera'a, the epicenter of the riots, and Rif Dimashq. These areas suffered from falls in crop production, increased marginalisation, weak social safety networks, and limited opportunities for migration in the 2000s (Barout, 2011). This explains why the initial protests against the regime erupted in the periphery and then spread to the small towns and the suburbs.

6 Concluding remarks

There is no doubt that as resources flow from production and working-class consumption into affluent consumption and into the national and foreign savings of the ruling classes, the system will experience a rupture at some time in the future. It is futile to forecast when the eruption will occur, but that it will occur is certain. Every system includes equilibrating forces that stabilise it. The state mediates the process of stabilisation by coercion, ideological indoctrination, and the redistribution of income through its 'civil society' function to satisfy the needs of the majority. In Syria, the ruling class practically owns the state. This is both a potentially favourable condition because it can buttress capital accumulation when the ruling class exhibits an industrial bent as in the East Asian model, or it can be detrimental, as when the rulers are inclined only to commerce. The latter was Syria's case. Investment neither bolstered industrial capacity nor did it require the workers to re-skill to keep track of improving technology. Productivity decline would naturally be followed by steady or declining wages. But in Syria, workers had no right to independently organise, so their wages were depressed by the double impact of rising inflation and lower productivity growth. In short, there was less income and fewer goods around for working people – and more repression. This situation could have gone on forever without a change in consciousness. Such a change occurred as the ruling class hold on power weakened and the people perceived change as a possibility when the Tunisian regime fell.

7
Conclusion: Difficult Exit from a Prolonged Conflict

The structure of this work sets out from the inapplicability of general investment theory to the particularities of the Syrian case. I was not expecting Syrian investment patterns to be similar to those elsewhere. I was building an argument that the differentiability of this particular case, given its historical and geopolitical context, is stark enough and finds its roots in the heterodox literature developed for the Third World. Economics, after all, is determined socially and politically.

Two interrelated domains will help us penetrate the depth of the subject of capital accumulation in Syria: its history and its class structure. As regards its history, I cover the principal conjunctures in its social and economic development, especially as they pertain to the process of building real capital in Syria. I began by describing its arduous path and the incapacity of the post-independence bourgeoisie to handle the task of development, Syria's military defeat and political instability in the first three decades after independence, and later, the gradual turn towards the neoliberal path. This historical course, tangled in war and instability, is – all by itself – not conducive to the healthy growth of economies. However, in the historical process, the way social relationships and classes are structured defines the interface between accumulation policy and outcome. A ruling class drawing its wealth from, and committed to, building the national economy may, more often than not, as evidenced in the early socialist periods, engender positive developmental outcomes. A merchant-military class formed by the Assad regimes, swayed by the prospects of safer returns on their investments and engrossed in affluent consumption styles produced inequitable development. Inequity in development is a manifestation of the crisis in capital accumulation and one of the leading components that led to the uprising. In this work, I focus particularly on a single aspect of

this implosion process: the failure of high-capital-output investment to rise and build Syria's productive capacity. The outcome of this decline is poorer productivity and wealth and fewer decent jobs for a growing labour force.

Like the majority of economies throughout the world, in the late 1980s Syria began its road to private market-oriented development. In this, Syria was not atypical. What was different, however, is that when Syria's ruling elite broke with state-controlled economic *dirigisme*, it simultaneously strengthened the state's repressive apparatus. The forms of political organisation became more authoritarian, centralised, hierarchical, and repressive. By 2000, the social support base that was the Ba'ath party had been relegated to a secondary position (Hinnebusch 2015). The regime hollowed out what few political rights the working class had under state capitalism because they needed to ensure its pliability as they dispossessed it further.

There was, to be sure, an already significant amount of coercion under state capitalism in the 1960s and 1970s. When the time came for the social gains by the working class to be reversed, the regime faced no opposition from below. Also, in a typical manner as occurred elsewhere under neoliberalism, market-driven reform that served the vested interests of the regime's *nomenklatura* decimated the lower ranks of the working population. The process was an erosion of both social contract and social responsibilities. More and more, Syrians were trapped in poverty as the reforms progressed and intensified. During my discussions with the Minister of Planning, I asked whether the Gini coefficient was rising, and, to my shock, I was informed that it was, but that also great wealth awaited Syrians once the markets began to fully shape resource allocation. By now, we all know that instead of great wealth, great misery had set in.

At the time of writing this conclusion in early 2015, Syria's civil war ravages humans, infrastructure, and nature. Syria's refugee problem is one of the worst in recent history, with millions forcibly displaced. The grip of the Salafists on the opposition has blighted the resistance to the regime and became more of an asset to the US and its allies that seek to weaken Syria as a social formation. Syria has few schools, hospitals, or factories left; in sum, its underlying national security structure has collapsed. Given its strategic importance at the crossroads of oil and war channels internationally (Syria is an ally of Iran), its degradation rebalances international and regional forces presence in the region. Russia and China had already vetoed two UN Security Council resolutions condemning the regime or calling for outside intervention. Yet there is

no light at the end of the tunnel unless international powers agree to resolve this conflict.

However, my purpose is not to speculate on the outcome of international relations in achieving (or not achieving) an exit from the Syrian quagmire. I have argued that freer market policies backfired economically and socially. The failure of private sector-led investment to lead job-creating or quality economic growth is one of the socioeconomic drivers of the uprising. The neoliberal transformation in Syria was not solely an economic agenda. It was the Trojan horse of the leading social forces in history. These forces had a much more complete agenda, including social restructuring of classes, political blockage of transformative action from the working classes, and a freeing of economic forces in institutions that are captive to a crony capitalist class.

The crisis of capital accumulation is a social crisis: a crisis in the way society organises its production to sustain itself. The politically empowered social force responsible for allocating resources during the Hafiz and Bashar regimes channelled more of society's assets and capabilities into its own private enrichment at the expense of the interests of the broader population. What the 'military-mercantile complex' in Syria did was to endorse the neoliberal fever sweeping the planet. Nearly all countries were structurally adjusting at the behest of the IFIs, but none within the same geopolitical context. Macroeconomic stabilisation strategies; reduction in government expenditure; and removal of subsidies on food, health, and social welfare; are the tip of the iceberg in the process that shifted resources from the working to the ruling class.

The class in power decided not to build on the ISI period's achievements and prematurely reversed the statist policies that retained resources in the national economy. Deficiency in productive capacity followed. Shortages in capital equipment developed as the state neglected technological imports and veered towards consumables imports inhibited industrial expansion (fieldwork discussions). The point that I emphasise throughout this work is that public investment receded following market liberalisation, and private sector-led investment could not push overall investment to rates higher than those achieved by the public sector in the late 1970s.' In addition, the manufacturing share of total value-added has not exceeded 10 per cent since the 1990s and has remained concentrated in light finishing industries and low capital-output ratio investment. The bulk of private sector-led investment has remained concentrated in artisanal projects, real-estate speculation, short-term transport activities, services, construction, and telecommunication.

As regards forms of property control, the transformation of the politically empowered social class from controllers to owners of the means of production is a key aspect of the crisis of accumulation. With slight variations, the wealthy tycoons in town were themselves the state bourgeoisie. As these property-owning individuals exploited economic reforms in the interest of short-term profiteering, they depleted the economy of the resources that would otherwise be put back into the cycle to boost productivity in the future. Their business ventures in telecommunication, duty-free and retail projects, private banking, real estate, and other services went unchecked and immense private wealth was amassed. It has been estimated that 5 per cent of the population controlled more than 50 per cent of the economy. Naturally, class polarisation deepened and divisive ideological forms rooted in religious sectarianism weakened class consciousness. This is how the social and economic aspects of the crisis of capital accumulation became manifest in a real process that failed to create value to reproduce the requisites of society. And the results are there to be seen. Four years of armed conflict, and there is no exit strategy in sight. The Syrian working people, who were keen on reclaiming an adequate share of national income at the start of the uprising, have lost in a political process to an absolutist regime unwilling to reform and to a fragmented and militarised opposition that has recently become dominated by a reactionary Islamist ideology that feeds off imperial ambitions.

1 The book in perspective

The book argues that the neoclassical and demand-led approaches to investment in fixed capital assets lack universal application because they are inadequate for analysing the determinants of investment in a developing formation. The mainstream neoclassical approach suffers from inherent theoretical limitations, as expounded by the Cambridge Capital Controversy, while the demand-led approach can be applied to developed countries, but not to developing ones. The book contends that both approaches are incapable of analysing investment in developing economies whose markets are small and productive capacities deficient, and whose investment has been subject to some degree of centralised planning. While the constrained nature of demand represents a major limitation in developed economies, the overriding macroeconomic challenge in a developing economy, à la Kalecki, is to increase investment in fixed capital assets in order to overcome resource constraints. Hence, the general picture of underdevelopment is one in which both supply and

demand need to be boosted for a virtuous cycle of development to kick in. The development task is made easier when countries develop under peaceful conditions, enjoy a healthy social contract – one that mediates class differences – and hold a certain degree of autonomy in the choices they undertake regarding policy.

State-capitalist Syria, in its 'socialist' building period, enjoyed a high degree of all three elements (security as in peace, social contract, and autonomy) that tie together developmental macroeconomic policies. It experienced a high dose of state intervention in guiding economic development as well as higher rates of public investment. Through a modest degree of centralised planning (as compared to the Soviet model), the Syrian state in the 1960s determined the amount and type of investment and the nature of financing for long-term projects. In the pivotal sectors of industry and agriculture, it created state funded financial institutions whose sole function was to expand credit to private and public investors at concessional rates. The purpose was, after all, to build capacity.

That is why understanding investment in Syria becomes a matter of defining the history of the social agency (the social class) whose interests building a society's economic capacity may serve. As such, the book adopts a political-economic approach – or more specifically, a class-based approach – that explores the role of the social class dominant within the state and the economy and, accordingly, of the social agency responsible for investment decisions. This line of argument sheds light on the social, economic, and political factors that prompted the politically-empowered social force to opt for either public or private investment. In state-capitalist regimes, the dominant class only controls the means of production and accrues the surplus indirectly through public investment, whereas for classes that opt for private investment and are owners of the means of production, the process of appropriation is direct. Hence, the book analyses the path of investment from the standpoint of the end that it served, and how over time, investor behaviour changed to correspond to the evolving historical conditions.

As noted earlier, developing countries require higher-than-average investment rates to escape the underdevelopment trap. Given that private investment is volatile because it is susceptible to risk and uncertainty, the book argues that state intervention and public investment are indispensable to underwrite the future and sustain high investment rates. Given the expansive room available for building capacity, the private sector rides along with state spending and investment. However, below full utilisation of resources, crowding in occurs in the real and the financial space. The credit available to the private sector rises along with

state financing as a result of money expansion and the autonomous capability of the private sector to self-finance.

Advocates of the socialisation of investment à la Keynes contend that investment rates should be bolstered by the state to ensure developmental purposes (Keynes, 2008 [1936]). Also, the structuralist and developmental-state schools examine various developmental experiences and underline the role of government in designing co-related national and trade platforms for economic expansion, including the sustainability of the investment rate. In the particular case of the East Asian first, and second tier NICs, government intervention at the behest of the private sector provided financial subsidies and guarantees to private enterprise and boosted industrial advancement. The governments of these countries were dubbed handmaidens of the private sector. In Latin America, governments intervened to help private producers change their structural characteristics via the promotion of import-substitution.

In a group of developing countries that witnessed a deeper degree of government intervention during the postcolonial period, the state followed a semi-centralised planning model. Syria fitted nicely into this state-capitalist model during its developmental stages of the 1960s and early 1970s as evidenced by its egalitarian redistribution, land reform, nationalisation of key industries or more generally, *étatisme*. As the record showed, this was a period of social and economic take-off. The Ba'ath party hijacked power in a coup d'état orchestrated by military officers in 1963. The state bourgeois class held on to power thereafter then. At first, they balanced income distribution vertically, between rich and poor, and regionally, by bridging the incomes of working class and peasantry. Their populism widened their social base of support. To address populist concerns, they assumed the role of the biggest investor via public investment and pushed for import-substituting investment as per the ISI programme to fortify industry and the national security structure. So, the state bourgeoisie's hold on power was developed and maintained by a mixture of repression and egalitarianism. Later, under the Assad regimes, they held power by a combination of yet more repression and rising inequality.

These military officers – hailing from the small land-owning peasantry or petty bourgeoisie – exhibited peculiar social attributes that shaped their practice as a class. Unlike the non-owning peasantry or working class, their commitment to socialisation was half-hearted. The majority would have been much more inclined to opportunism than to a true commitment to the working poor. The class to which they belonged shifted ground as they moved up the ladder of wealth. At first, they amassed

their wealth through the state and aligned themselves with the radical national liberation movement; then as their class privilege increased, they parted ways with the middle class and workers, and aligned themselves with the new commercial bourgeoisie. Starting in the late 1980s, military officers were keen to invest the wealth they accumulated from the usurpation of state funds in the private sector. The maintenance of the private sector by the state throughout the years of the state-controlled economy provided room for the bureaucratic state capitalists to move into the private sector and translate their informal hold into some form of private wealth. As their class-based interests changed to become entrepreneurial, the state bourgeoisie pushed for further economic liberalisation, of which Investment Law No. 10 of 1991 was a landmark. The law itself represented a watershed ending of the Ba'athist state capitalist era, marking the transition to a market-oriented economic structure. It also reinstated the private ownership of capital and, in this way, investment was once again primarily driven by private individuals or firms. In this process of market liberalisation, the state bourgeois class managed to mutate into a private bourgeois class and became stronger as time went by. Accordingly, the agency of investment changed and so did the quality and rate of investment. Capacity was no longer built to serve the general public, with some of the returns being expropriated by their state bourgeois class in perks and other pecuniary gains. Instead, the purpose of investment was twofold: first, to generate quick and guaranteed returns to the 'military-mercantile complex'; and second, to be placed in areas that would build sectional support (construction of military establishments) for the regime instead of broader state security. At this juncture, class security exceeded national security, as could be discerned from the type and location to which investment was directed.

The promulgation of a set of wide-ranging neoliberal reforms in the ten years that preceded the uprising and the gradual reversal of the previous socialisation measures dampened Syria's economic and social dynamism, and the result was catastrophic. There were two significant outcomes developing on the objective level: rising unemployment and daunting inequality caused by the double effect of declining real wages and rising capital wealth. On the subjective level, media liberalisation and openness to outside sources of information infused the mass consciousness with the idea that open debate could become possible even in Syria.

As the research for this book was done prior to the uprising, there was data of all sorts, some compiled from fieldwork, to substantiate poor investment and its consequence, uneven development. But the uprising

itself – its calls for bread and dignity – stands as ultimate proof of policy failure. When interviewing state officials about the reform process, a common view I heard was that the neoliberalism was irreversible. The president, I was informed in one of the interviews, had Western leanings because he was educated in Britain, and the First Lady herself was British. In another interview in which I mentioned that the US would not allow Syria into the WTO, the answer was that Syria was opening up all trade because it was turning economically to the right in order to later turn politically to the right. Social consciousness was imbued with fascination with Western life styles and consumerism. The values of society moved from the goal of liberating the occupied Golan Heights from occupation to driving luxury cars and acquiring designer clothes. This faith in the market had already become a global theology, and Syria could not be immune from its dictates. Hence the Syrian ruling class advocated structural adjustment policies, and knowing that its hold on state power and all other institutions would invert the trickle-down into a trickle-up. For a country at the crossroads of imperialist geo-strategic positioning, that was a fatal mistake.

In other interviews with state officials, a common theme was that the Ba'ath party, holding to some socialist ideals and protecting certain state owned enterprises, was an impediment to development. As a result, in its late phases of development prior to the uprising, the regime disowned its Ba'athist heritage and virtually reversed the socially progressive measures that were introduced in the 1960s. Worst hit were the rural areas. With subsidies on fuel lifted, agricultural input prices rising to world levels as trade in these items was freed, and investment in agriculture and its infrastructure hitting new lows, the farmers suffered the full brutality of neoliberal reforms. The effects of droughts were no longer transient. The lack of dams and reservoirs and the reliance on artisanal wealth that depleted the water table, even as changes to land tenure laws reversed Ba'athist 'socialist' land reforms, put farmers under pressures unknown before. It was no surprise, then, that the spark of the uprising was rural.

2 What's next for Syria? No room for socioeconomic planning amid imperialist-sponsored violence

At the time of writing in early 2015, the future of Syria as a consolidated state remains uncertain. The violence of the Syrian conflict is being fed by unbridgeable world differences: the US and Europe on one side, versus Russia and China on the other. Lenin ([1916] 1966) emphasised that militarism represented a decisive moment in an accumulation

process under imperialism and the principal means by which capital overcomes its crisis. Lenin asked: 'What means other than war could there be under capitalism to overcome the disparity between the development of productive forces and the accumulation of capital on the one side, and the division of colonies and spheres of influence for finance capital on the other?' (Lenin, [1916] 1966). With violence grounded in imperialist history and current tensions running high, a resolution or even a tapering down of the Syrian conflict appear as elusive as ever. The funding of warring proxies may be expensive, but the strategic cost to imperial powers from losing a foothold in Syria could be far greater.

Forecasting reconstruction plans with an optimistic tone for post-conflict Syria requires a certain level of audacity. Talk of reconstruction at this time – especially derived from the mainstream literature – is either foolhardy or intentionally misleading. Yet some have already started to draft reports that set forth proposals for the economic and political transition. The Syrian opposition – especially those of the Syrian National Council (SNC) – has sought the advice of its Western supporters on matters related to the design of future policies since the beginning of the conflict. The SNC has coordinated with international bodies such as the Working Group on Economic Recovery and Development of the Friends of the Syrian People (known as the 'Working Group') – established by the Friends of Syria Group – to plan for economic recovery in Syria following regime change. The main aim of the latter 'working group' is to inject emergency aid – a sort of a mini 'Marshall Plan' – and launch urgent economic policies after the fall of Assad in order to transform post-Assad Syria into a liberal market economy (*German-Foreign-Policy.Com*, 2012). The SNC has also coordinated with the Syrian Centre for Political and Strategic Studies (SCPSS), an independent centre established in 2008 by some Syrian opposition experts based in Washington.

In 2013, the Syrian Expert House of the SCPSS designed monetary and fiscal policies for economic reconstruction after the 'speedy' end of the conflict. Originating in the United States, unsurprisingly, the report advocates further market liberalisation in Syria. It is critical of Bashar's economic liberalisation measures from the wrong angle, stating that they were not enough and that they were only modest economic reforms. It therefore advocates lifting of subsidies on necessity goods, fuel and electricity, the liberalisation of prices, the liberalisation of trade and capital accounts, the lifting protection of local industry and the privatisation of nationalised assets (SCPSS, 2013: 205–07). The other subordinate objective of the report envisages that a perfect free-market model will crowd in a democratic political system (SCPSS, 2013: 201).

Amazingly, this neoliberal fantasy is being trotted out yet again, against all the mountains of empirical evidence to the contrary piled up over at least three decades, with all the vigorously bogus sincerity of religious hucksterism. If greater democracy did not follow market liberalisation in (say) Mexico, Honduras, or Iraq – or in Bashar's Syria – this could only be because markets were not yet liberalised enough.

The poverty of this report leaps from the pages as one reads that Bashar's liberalisation was not sufficient and failed to achieve perfect competition because it did not remove the barriers to entry in the market (SCPSS, 2013: 197–98). The problem here is that the language springs from first-year microeconomic textbooks – and unlike Bashar's regime which couched reforms in the cant of social markets or parroted mainstream Western arguments that freer markets galvanise idle resources – the report's promotion of 'free entry' and perfect competition marks a level of analytical immaturity unseen before, even among neoliberal pundits. Ideally, although the ideal rarely if ever exists, the market has to represent an even-playing field with checks and balances regulating the metabolic rate of social activity. In reality, efficiency criteria are class-determined, free competition is an impossible state that never occurs, and entry, far from being free, is already determined by market and political shares everywhere. Supply and demand are not straight lines on the first-year economics teacher's drawing board; they are the real consumption of working people and the 'supply' of basic necessities that is wrenched away from them more by violence and expropriation or low wages and social insecurity than by the peaceful means assumed in economic fairytales.

As explained in the book, the managers of the transition became kleptocrats as they 'freed' the whole economy. The Syrian experts who are planning the roadmap for the hypothetical transition in Syria have nothing left to free. The only deeper degree of liberalisation they can pursue is the erasure of the minimum wage legislation, which was in any case, only a formal benchmark that no one abided by in any case during the Bashar era. This 'national economic vision' for new Syria that the 'Working Group' and the Syrian opposition (SNC) generally welcomed offers no fundamental changes to the macroeconomic policies that were pursued by the Assad regime. The experts behind it are clueless about the extent of the free-market shock therapy to which Syria was subjected during the Bashar era. To continue with the same macro strategy is futile in the best of circumstances. The only reason one would want to free a market that is already free and replace the old rulers is because he or she hallucinates progressive outcomes out of neoliberal policies. This

'national economic vision' is hollow rhetoric. Markets are social platforms that include value circuits that channel resources to ruling or ruled classes. Policies and regulations 'free' the delivery of resources either to one class or to the other. The outcome is determined by class struggle.

Some in the moderate opposition, including scholars like Mohamad Jamal Barout, Munir al-Hamsh, Tayseer Radawi and Samir Seifan, wish to part with the past macroeconomic framework and adopt a model that recirculates assets more equitably within the economy. But they are few and far between. The outside pressure from Iran and Russia to conform to the neoliberal model is just as intense as that from America and its allies. There is not a social-economic alternative in sight. The calamity of the conflict is doubly serious because the conflict has built up a momentum of its own and appears unstoppable. Hence the cant of neoliberal heaven serves merely to entice local warlords to strengthen their position for the grab once the conflict ends.

Given that prospective policy plays a role, although partial, in the way the present conflict is articulated, a socially responsible economic plan sponsored by the international community might dampen the enthusiasm for sectarianism. As farfetched as any talk of future stability may seem, the following would be real building blocks of a healthy future for Syria: binding constraints on capital outflows in the transition period, checks and balances in the reconstruction process monitored by an independent body, and most of all a constitution that grants full individual civil rights in the state irrespective of sectarian or ethnic identity. Additionally, one must demand a moral obligation from the international community to support Syria financially and make sure that reconciliation is enforced among all oppositional parties and factional forces. The most important element in solid basis for an end to the conflict and subsequent reconstruction, however, is the restoration of the state, its authority over Syrian territory, and its popular legitimacy. War fatigue has already set in, and people of all persuasions are in search of deliverance. The majority will welcome a genuinely inclusive nonsectarian state committed to reconstruction.

If there are lessons to learn from the past, post-conflict Syria has to steer itself into pro-poor and welfare-enhancing economic growth. Widening the political process and allowing for the participation and representation of the marginalised segments in society is a first step in this direction. This is central to Syria's transition because it can build internal political stability from which egalitarian and pro-poor economic strategies can be derived effectively. It is also important because the demands of the vulnerable segments can be legitimately met by the

government. It is not expected that post-conflict Syria will go through a radical structural reform that will reinstate the old 'socialist' measures, such as land redistribution and nationalisation. However, after three decades of laissez-faire policies that ended in utter tragedy, there should be a return to some degree of social and economic planning attained through a high degree of government intervention. The government should guide and facilitate the dynamics in the market to ensure a virtuous economic growth cycle. Syria, when it emerges from crisis, will be in dire need of rebuilding its shattered infrastructure and devastated economy. Its markets will be subject to supply rigidities. Only the state and its resources can overcome these constraints. The government can guide investment to key sectors and can promote small-farming tenure to boost agriculture production. The overriding proposition here is that far-reaching government interference in market forces can promote sound development.

As the conflict ends, transitional Syria is expected to receive aid or loans from its allies. It should use these loans first to build its national sovereignty as an independent state and sever all forms of external interventions into its economic and political affairs. To do this, it will likely run into deficit because of high government expenditure on public investment. This action on the demand side in the form of increased public investment is crucial for reconstruction and for getting the economy back in shape. At a later stage, Syria will have to reduce its dependence on external finance and mobilise its domestic resources to finance its development.

Transitional authorities must introduce policies that do not spring from the orthodox framework as dictated by the Washington Consensus. These policies need to be counter-cyclical, especially when the country is out of conflict and needs to allocate all its financial resources to restoring infrastructure and basic social services. In more technical terms, a whole set of macroeconomic policies starting with expansionary fiscal and monetary policies, together with managed exchange rate policy and regulated trade and capital accounts, need to be utilised for the virtuous cycle to hold (McKinley, 2009). Regulated capital accounts can ensure that national savings do not flow out of the country (Kadri, 2013). In addition, progressive tax policy can guide resources within the economy – restrain luxury consumption along with its high import content and encourage investment instead. Under such a policy and as argued by Kalecki, the vulnerable segments in society do not carry the burden of financing economic growth. An effective industrial policy, in particular, can boost local industrialisation through stages

of development that start with light industry (consumer durable and non-durable items),then intermediate goods, and finally moves to basic capital goods. Throughout these stages of industrial development, industrial policy should endorse a crowding-in strategy, reallocating resources to the productive sectors and granting them financial and fiscal privileges (credit, tax holidays and special subsidies). For industrialisation to be employment-intensive, industrial policy should prioritise the tradable-goods sectors at the expense of capital-intensive sectors. Finally, the government should ensure that the vulnerable segments are not left out from the economic cycle. It should make sure people who live in rural areas have access to social and economic resources such as healthcare, education, and job opportunities. In all, the process is of course challenging and involves the calibration of savings and investment, exports and imports, consumption and production by joint manipulation of fiscal, monetary and exchange rate parameters.

One could expand more on the macroeconomic policies for transitional Syria that take into consideration the socioeconomic roots of the crisis and spring from a more progressive worldview and economic literature. But realistically, one knows that the odds are stacked against the ordinary Syrian people. The world is structured along class lines. There are classes that benefit from the economy of war and the debilitation of Syria, but the majority of ordinary people will certainly have their average standard of living pulled down by the severity of the Syrian human disaster. Hope lies in bringing these ordinary working people to the realisation that their interrelatedness with the Syrian population is real and that a weakened and impoverished Syrian people weakens ordinary working people around the globe.

Notes

1 Introduction

1. Bashar Assad assumed power after the death of his father Hafiz in 2000.
2. The Arab Near East includes the countries of Western Asia; that is, the Levant, the Gulf economies and Iraq.
3. For a definition of capital accumulation, refer to Chapter 2.
4. See GAR (2011) and Weston (2013).
5. By examining two agro-corporations, Hopfinger (1990) concluded that the agricultural activities remained traditional, as traditional crops were the basis of activity.
6. Nearly 1.5 million people have migrated from rural to urban cities by 2011 (Shadid, 2011).
7. The proceeds of oil export revenues went directly to the President's office. Figures related to oil and its allocation within the Syrian budget had remained very confidential.
8. Other sources reported USD2.4 billion of oil revenues in 1995 (EIU, 1996: 8). According to local experts, this figure did not include the re-export of Iraqi oil.
9. The total Syrian population was 21.5 million in 2010 (World Bank, 2014). It was growing at an annual rate of 3 per cent during 2000–10. The youth category – aged between 15 to 29 years – constituted one-third of total population (Central Bureau of Statistics, 2009). The economic activity rate out of total population (15+) was 49.1 per cent (Ibid., 2009). With a high proportion of unemployed, the youth is the most socially and economically vulnerable.
10. The Iraqi oil was sold to Syria at USD14 a barrel in 2001 and Syria then exported it for USD26.7 a barrel (Haddad, 2002: 23).
11. The oil export revenues amounted to an average of 22 per cent of GDP in the early 1990s (Arab Monetary Fund, different issues).
12. The *Financial Times* published Thomson Reuters's data on Syria's petroleum reserves. They reported a level of 3,159 million barrels in 2004 (Khalaf and Filfield, 2009). This matches the figure published by the Arab Monetary Fund's *Joint Arab Economic Report* (2008).
13. Since the 1980s, there has been a plethora of literature on the 'resource curse' that basically postulates that an abundant amount of natural resources can be a curse rather than a blessing for a developing country in terms of the adverse economic outcomes. See: Bannon and Collier (2003); Davis et al. (2003); Sachs and Warner (1995b); Wheeler (1984).
14. For instance, Norway, compared to its Scandinavian neighbors, exhibited a strong economic performance in the 1980s and 1990s, implying that oil did not contribute to deindustrialisation. Through a set of deliberate policy schemes, Norway managed to store the oil revenue inflows in a Petroleum Fund outside the country, thereby minimising their impact on the internal

price structure and protecting the economy from the spending effect. In fact, oil revenues helped in transforming Norway into a more industrial economy without the negative side-effect of lost competitiveness (Larsen, 2004).

15. Syria's crude oil production accounted for about 3 per cent of the Gulf economies' total oil production during the 2000s (computations based on oil production from *OPEC Monthly Oil Market Report*, different issues). Moreover, its oil export revenues accounted for only 1 per cent of the Gulf's total oil export revenues (United Nations, 2006–07).
16. Exports to the USSR were estimated to be USD 200 to USD 300 million per annum in the late 1980s. In 1989, they were USD 1 billion dollars (Perthes, 1992a: 229).
17. For a definition of gross fixed capital formation (GFCF), refer to Chapter 2.
18. During the 1990 period, the new commercial bourgeoisie took advantage of Law No. 10's elimination of tariffs on cars and circumvented the state monopoly on car imports (EIU, 1992: 16 and Hopfinger and Khadour, 1999: 65). Under the guise of car leasing agencies and the promotion of tourism, these capitalists were able to import huge numbers of cars that were then put to private use. This point will be covered in Chapter 6.
19. The capital-output ratio is low because Syria became more and more dependent on oil rather than on industrial capital.

2 Review of the Theoretical Framework on Investment Decisions

1. According to United Nations System of National Accounts (United Nations Statistics Division, 1993: 283), gross fixed capital formation (GFCF) is the 'total value of a producer's acquisitions, less disposals of fixed assets during the accounting period plus certain additions to the value of non-produced assets (such as subsoil assets or major improvements in the quantity, quality or productivity of land) realised by the productive activity of institutional units.' It is basically defined as a flow value because it represents the purchase of new plant and equipment (over a period of time such as a quarter or a year) that helps to enhance the efficacy of production. As such, GFCF is part of total investment since it excludes all kinds of financial assets and stocks of inventories (Eatwell et al., 1998: 980–82; Lund, 1971).
2. Capital herein is considered to be fixed rather than circulating capital. However, if all capital is circulating capital, meaning that the whole capital stock is completely used within a period, then no stock of capital is brought up to the next period. Capital and investment coincide, and the optimal investment decision governs everything.
3. Both Keynes and Kalecki, the founding fathers of the theory of effective demand, highlight the importance of investment in the determination of aggregate demand and output (Keynes, 2008 [1936]; Kalecki, 1968). The basic idea behind the multiplier effect is that a change in investment causes more than a proportional change in overall income. An increase in investment adds to income directly and also indirectly through its effect on consumption. When workers are hired to carry out investment, they in turn spend part of their earnings, thereby raising overall income. In this sense, an increase

in investment causes a more than proportional increase in income (Keynes, 2008 [1936]).

4. The UNCTAD defines productive capacity as 'the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services' (UNCTAD, 2006).
5. The neoclassical theory of optimal capital is based on the classical stationary capital theory, which is developed by Böhm-Bawerk 1923 [1891] and Wicksell 1936 [1898] and which corresponds to the long-run equilibrium solution to the model. In general, neoclassical economists consider capitalist economies to operate at the 'state of equilibrium' or close to the full employment and potential levels of real national income. Any departure from this state is considered a temporary phase that has a self-correcting mechanism (Fazzari and Mott, 1986–87). Neoclassical thought is mainly concerned with microeconomics: it focuses on the functioning of individual economic units and firms and their determination of what to produce in what quantities and at what prices within the general equilibrium (Walsh and Gram, 1980).
6. As discussed by Gehrels and Wiggins (1957: 37), the rate of interest tends to be indicative of the availability of credit as well as a measurement of its cost.
7. The Marginal Productivity of Capital is defined as the additional output produced when an additional input of capital is used in production, assuming all other factors constant (*ceteris paribus*).
8. The rental price or user cost of capital is the cost per period of holding and maintaining one unit of capital (Coen and Eisner, 2008).
9. A price-determined economy is a theoretical macroeconomic framework that is considered to be either at the 'unique full employment general equilibrium or prevented from achieving that point of general equilibrium by private or public price distortions' (private monopolies and oligopolies and government's levying of taxes) (Weeks, 2005: 11). The price-determined framework assumes that all markets clear in an instantaneous process in the sense that all exchanges and trades take place at the general equilibrium price – the full-employment general equilibrium level. All buyers and sellers use prices as 'signals' in order to determine the quantities they want to buy and sell. Prices are indicators of efficient allocation. In this sense, no 'false' trading or trade exchanging is taking place outside the equilibrium level (Weeks, 2005: 11).
10. The debate involved economists such as Piero Sraffa, Joan Robinson, Peiro Garegnani and Luigi Pasinetti from the 'English side' at the University of Cambridge in England versus Paul Samuelson and Robert Solow from the 'American or the neoclassical side' at the Massachusetts Institute of Technology. The controversies appear in the *Quarterly Journal of Economics*, the *Economic Journal* and the *Review of Economic Studies*. Harcourt (1972) covers both sides of the controversy. The set of papers that appears in the *Quarterly Journal of Economic*s was labelled by the journal editor the 'Paradoxes in Capital Theory: A Symposium,' from which the soubriquet Capital Controversy originated.
11. The value measurement of capital involves time and hence takes into consideration the profit rate. The value of a machine can therefore be computed as the machine's value plus the value of labour involved in producing it times the rate of profit in order to reflect the passage of time. This dated

labour of machines is known as the Sraffian technique of aggregating capital (Sraffa, 1960). In this regard, all machines are reduced to a sum of dated labour from different years, by which the dated labour value of commodity X can be added up to dated labour value of commodity Y. While the neoclassical economists take the rates of interest and profit to be interchangeable, the 'Sraffians' differentiate between profits (the return on investment) and the rate of interest (the hire price of finance) and emphasise the theoretical importance of profits (Harcourt, 1972: 37–39).

12. Empirical studies that are conducted to explain the movement of cyclical patterns of investment and profits show that total profits lead investment by one to two quarters, whereas the rate of profit – defined as total profits out of capital stock – precedes it by about three quarters (Sawyer, 1985: 53; Sherman and Evans, 1984: 162–64).
13. Keynes is critical of the conventional neoclassical approach, which adopts the concept of a 'rational' individual to whom knowledge (or information) is extensively available and by whom the future is calculable – 'substantively' rational in Simon's (1976) useful terminology. Given that the information about the future is in fact unobtainable and immeasurable, this leads to subjectivism and 'irrational behaviour.' The Keynesian approach expands on the concept that firms usually follow common practices and conventions to adjust and readjust their behaviour. But what is crucial here is that, even if decision-makers optimally use the information they have, the system can always generate an outcome that is erratic, unpredictable, and undesirable.
14. In Syria, the supply of money was determined by the expected growth plus the margin needed to create contingent additional economic activities. Prices operating in the private sector were also capped and monitored; meaning that all exchange took place under a price system overseen and regulated by the state. Until the late 1980s, monetary policy was geared towards replenishing the successive five-year plans of the economy. Credit to private and public investment was centrally-allocated or state-determined. Even after market liberalisation, lending by the newly private operating banks in Syria remained almost insignificant and extended only over the short term, based on huge collateral and guarantees (refer to Chapter 6).

3 Investment Promotion in Developing Countries

1. According to (Kalecki, 1976: 45), the government finances public investment by borrowing from the banking sector. Investment expenditure will then 'create its counterpart in savings,' which will be used for the repayment of the loan.
2. Kalecki refuses to finance growth at the expense of the poor. He raises three points when addressing the financing of development (Kalecki, 1963: 45). First, a non-inflationary growth is indispensable. An economy that tries to grow faster than the growth rate of necessities will fall into inflationary difficulties, because the demand for necessities will exceed their supply. A substantial increase in industrial production should be accompanied by a simultaneous increase in agricultural production. This is a vital condition that should be pursued to offset increases in prices of basic food that may result from the redeployment of labour to the industrial sector and from

rising unit costs that follow the increased demand for food, thereby avoiding any inflationary effects and reduction in real wages. A well-performing agrarian sector will act as a cushion for the industrial sector from both the demand and the supply sides. Second, no taxes should be levied on lower income groups of society and on necessities. Third, direct taxes should be raised on higher income groups and indirect taxes on non-essential items (tax the private capitalists' profits).

3. In this regard, Kalecki (1976: 27) envisages political tension that may arise when the profit motivation of the capitalist class clashes with egalitarian state policies. Public expenditure, financed by taxing the rich or imposing indirect taxes on non-necessity items, represent substantial problems to the capitalist class. That is why he argues that the implementation of interventionist measures, accompanied by planning of investment, may not occur peacefully.
4. The purpose of this section is not to elaborate on the outcome of import-substitution industrialisation in Latin America in the 1970s, but to highlight the role of the state when it intervened in the market and initiated a qualitative structural change by promoting intensive import-substituting industrialisation that was meant to break the impasse of underdevelopment in Latin American economies.
5. Prebisch argues that the industrialised economies kept the benefits of technical progress to themselves instead of transferring these benefits to the countries of the periphery by lowering the prices of industrial products, which could have improved the terms of trade for the developing economies that export primary commodities (Larrain, 1989:103). The conclusion of the Economic Commission of Latin America (ECLA) in 1949 was that the gap between the centre and the periphery would continue to widen, because the advanced economies were growing faster than those in the periphery. While industrial production in the centre could be described as dynamic and promoting raw material extraction, the extraction of raw materials in the economies of the periphery was almost static and was not necessarily stimulating industrial activities.
6. According to Djilas (1951) and Cliff (1974 [1955]), the model of state capitalism was first applied to the former Soviet Union during 1933–46 when the Stalinist regime was facing intense international pressure. The rise of a bureaucratic domination was inevitable. Notably, this bureaucracy was locked in competition with its capitalist neighbours. At that time, Soviet Russia was also described by some Trotskyists, such as Cliff (1974 [1955]); Binns and Hallas (1976); Buick and Crump (1986), as an economically backward and bureaucratically ruled or 'degenerated' workers' state. The principal tenet of the degenerated workers' state thesis is that the Soviet Union was surrounded by a hostile capitalist world and did not possess the means on its own to construct a socialist economy, leading to its authoritarian degeneration. Such construction needed the unfolding of the proletarian revolution in the capitalist economies of Western Europe that would have supplied Russia with the material prerequisites needed to maintain and develop a genuine, democratic workers' state (Cliff 1974 [1955]; Mandel, 1951: 3). As explained by Buick and Crump (1986: 63), 'the isolation of the Russian Revolution should help us see it as a revolution which did not address universal working-class problems, but which was an attempt to achieve a state-capitalist solution to the specific dilemma which confronted Russian capital as it sought to catch up

with the West.' (Cliff [1974] also adopted this view of the USSR rather than continuing to view it as a 'workers' state' in any sense.) Although modern industry and big enterprises were state-owned, the workers had no choice but to sell their labour power and lacked directive power and control over the means of production (Binns and Hallas, 1976: 2), meaning that the USSR was incapable of abolishing the central capitalist social relation of production.

7. The process of agrarian reform involves the abolition of feudal or colonial forms of land ownership. According to Popov (1977: 148), agrarian reform can take either of two forms: the total nationalisation of all the land; or partial nationalisation, whereby the bulk of land is given over to the working peasants as their private property. Kalecki (1963: 51) points out that '[t]he 'financial' problem of development is that of adequate agricultural production. The key to financing a more rapid growth is the removal of obstacles to the expansion of agriculture, such as feudal landownership and domination of peasants by moneylenders and merchants.'
8. The next chapter will elaborate on the reasons for the weakness of the traditional bourgeois class in Syria.
9. Mosca (1939) is quoted in Bottomore (1993: 5). A more recent description is provided by Petras (1976a: 439). He defines the intermediate strata as a 'property-less' social stratum, that is between workers and traditional landowners. It is comprised of professionals, civil employees, technocrats, military, and university groups.
10. *Absolute surplus value* is defined as the capitalist gain accrued by exploiting the workers' labour power beyond *necessary labour time* – the time required for the worker to generate the value of his own reproduction as a worker [labourer] at that same level of productivity or better (Emmett, 1923: 27). The extraction of surplus value, according to Marx, is a systemic, inherent feature of capitalism. In order to expand capital accumulation once capital exists 'on its own foundation' (Marx, 1971 [1867]), the capitalist has to extract more surplus value through increasing the productivity of labour via new technology and improved methods of production.
11. Proponents of dependent development – or what is known as externally induced economic expansion – view the process of industrialisation in the developing world after the Second World War as being induced and directed from the outside. Countries in the periphery are those that have primary commodities and strategic raw materials, whereas those in the centre are the industrially advanced economies characterised by enhanced technology and self-sustained capitalist development. Foreign- induced development has limited industrialisation to particular sectors, such as assembly plants, light industry, or intermediate goods sectors (Petras, 1976a: 436). According to dependency theorists, the greater degree of externally driven industrialisation, the greater the vulnerability of the developing country to external fluctuations in the global economy.

4 Class and State Capitalism in Syria

1. The distinction between the position and the consciousness of the members of a class has its origins in Marxist interpretation of a *class in itself* – that

is, the position which the individuals similarly occupy within the process of production – and a *class for itself*, which develops when these members become aware of the existence of a community of interests among them. The working class or proletariat becomes the class which is conscious of its role in societal development and (in revolutionary times) of its historic task, which is to be the *last class*, the class that supersedes class society and hence dissolves itself (Mészáros, 1995).

2. The French Mandate was a League of Nations mandate that was founded after the fall and partitioning of the Ottoman Empire. In accordance with the Sykes–Picot Agreement of 1916 between Britain and France, Lebanon, Jordan and Palestine were separated from Greater Syria, and the Balfour Declaration of 1917 ushered in the formal Judiasation of Palestine. Refer to Khoury (1987a) Chapters 2 and 3 on Syria under the French Mandate.
3. The roles of a capitalist and a merchant class are not to be confused. The merchant class acts as a circulator of money rather than converter of money into physical goods that are used for producing wealth (Buick and Crump, 1986; Fine and Saad-Filho, 2004). The process is that of distribution of goods, rather than of production of goods and the creation of new value.
4. The average annual growth rate in real output during 1959–63 was estimated at less than 3 per cent per annum (Central Bureau of Statistics, Statistical Abstract, 1975) .
5. The Alawites originated from the Latakia province, which is located in north-west of Syria. They are divided into four tribes. The Assad family springs from one of these tribes (Batatu, 1981: 331–32). It is difficult to obtain accurate figures on sectarian distribution in Syria. Roughly speaking, the estimates in Syria put the Sunnis at around 75 per cent of the total population, the Alawites at around 10per cent, and the remaining are Druze, Christians and other minority sects (Valter, 2014: 9).
6. The petty bourgeois class in the Arab world is primarily the the artisanal and bazaar class. It consists of shopkeepers, independent and self-employed craftsmen, and medium-size entrepreneurs who own their own shops (Longuenesse, 1979). More generally, the petty bourgeoisie includes 'those who own [their] means of production and neither sell their labour power nor purchase that of others' (Longuenesse, 1979: 3).
7. The military coup of March 1963 was described as a 'revolution from above' (Hinnebusch, 2001a), since it was initiated without the insurrection of the working class, especially the rural peasantry. According to Braverman (1959), these were not revolutions but 'dictatorships masquerading as a revolution'.
8. Agricultural cooperatives were crucial because they were responsible for selling fertilisers and other inputs to the peasants and for delivering the agricultural harvest to the state's agricultural marketing organisation. By 1977, the cooperatives numbered 3,432 and had 267,265 members (Drysdale, 1982b: 67).
9. Since the land reform was not preceded by an agrarian revolution that launched by the peasants, the process of land reform benefited the rich peasantry, who directly exploited the poor peasants. The immediate beneficiaries of Ba'athist land reforms were owners of 1 to 10 hectares, who at least doubled their holdings by 1970. Those who owned more than 10 hectares –

the richer peasants – were the primary beneficiaries. They leased the land and operated it on a capitalist basis (Batatu, 1985: 39).

10. The Economist Intelligence Unit (EIU, 2009b) argues that the 'solid foundation of employment protection' established during the Ba'athist era had made it difficult for the Syrian authorities to enact reforms in the labour market. According to the EIU, these protective measures had increased Syria's labour market risk and had discouraged local and foreign firms from hiring additional staff, putting negative pressure on the rate of unemployment. The EIU therefore recommended that these 'costly protective' labour measures be removed. It is odd and runs squarely against the facts that the EIU projected this image of a 'rigid' Syrian labour market. In a country in which the poverty rate (excluding that in the countryside) reached 30 per cent (see Chapter 6), child labour is steadily increasing (UNDP, 2005) and a huge army of Syrian migrant labour is living in severe conditions, specifically in Lebanon (Chalcraft, 2009) even prior to the uprising, we see precisely a labour market that had failed to provide decent employment opportunities to all social layers. Employment laws, including child labour prevention, fell short of achieving internationally set goals for the treatment and remuneration of labour.
11. Although the labour law of 1964 was less repressive than that of 1959, it continued to deny the right to strike. The 1964 law stated that the main tasks of workers were to enhance economic production and build a new society that works towards realising 'the aspirations of the Arab people for unity, freedom, and socialism, for the protection of work and production, and for the creating of skilled manpower' (Longuenesse, 1996: 112).
12. A small number of researchers published on labour issues in Syria. Hanna (1973), a Syrian Marxist scholar, published in Arabic and his work remains dominant. Other Syrian scholars include Amin (1968) and Zakariya (1972), whose works are inaccessible. International scholars include Longuenesse (1979, 1985, and 1996), Hannoyer and Seurat (1979), Picard (1985) and Perthes (1995).
13. Severe repression against socialist ideology was imposed. Secular parties and movements in Syria were also not allowed to assume political leadership. According to Sakher (2010), the regime used various forms of abuse in accordance with Emergency Law of 1963 that gave the authorities ultimate authority to investigate and detain suspects when state security is at risk. As a result, Communist parties were utterly incapable of initiating an independent universal understanding of the dialectic of societal change in Syria as well as in the Arab world. With such a crisis in radical ideology, the vacuum was filled by Islamic fundamentalism (Ayubi, 1995: 265–66).
14. Hafiz Assad's 'Corrective Movement' of 16 November 1970 was a reform programme that introduced pragmatic and non-ideological economic policies that geared resources towards achieving 'fast growth and modernisation' through the combined effort of public and private sectors (Perthes, 1995: 41–42). The 'Corrective Movement' paved the way for the gradual activation of the private sector and for economic opening. It also reoriented the state's resources from protecting the nation's interests (achieving egalitarian economic growth) into whatever served and safeguarded the regime's security.

15. Established in 1972, the Progressive National Front (PNF) (*al-Jabha al-wataniyaa al-taqaddumiyya*) is a political affiliation that integrated a number of political parties (the Ba'ath Party and other smaller parties).
16. For example, in the early 1980s, the Special Forces and the Third Division of the army carried out an extensive search and control operation in Aleppo and Hamah and their surrounding rural areas that resulted in mass killings (Michaud and Paul, 1982: 30).
17. The idea of working class participation safeguarding socialist development is old. Before Braverman, Rosa Luxemburg and the 'Lefts' of the early 1920s and 1930s, like Herman Gorter and Paul Mattick – whom whom Lenin referred to as 'infantile' – repeatedly warned about this, and proved sadly prophetic with respect to the USSR and subsequent 'workers' states' (Lenin, 1920).
18. *If the working class isn't in charge, it isn't socialism.* As Marx put it – as the slogan of the International Working Men's Association, no less – 'the emancipation of the working class is the task of the workers themselves' (The General Council of the First International 1866–68).

5 Investment Liberalisation During the Hafiz Assad Regime: Moving to a 'Freer' Market

1. The slow pace of economic reform in Syria is remarked upon in the literature by many authors, such as Haddad (2002); Heydemann (1992); Hinnebusch (1995 and 1997); Hopfinger (1996); and Perthes (1994).
2. 'Economic pluralism' was used in most of Assad's official statements and referred to the regime efforts to unite public, private and mixed sectors and bring them under the aegis of the 'national economy' (*al-iqtisad al-watani*). 'Pluralism' was brought forth in the very first days of the Assad regime when Hafiz Assad established the Progressive National Front (PNF) in 1972 that united most of political parties in Syria to broaden the regime's social base of support.
3. Syria was a mediator between the political parties during the Lebanese civil war. Escalated conflict in Lebanon during the civil war meant a destabilisation of the Syrian sectarian structure and a threat to the regime's overall security (Chalcraft, 2009: 112). The Assad regime's interest in Lebanon had little to do with its occasional 'Greater Syria' rhetoric. In other words, the regime was not interested in annexing Lebanon so much as it was committed to strategically maintaining Lebanon as a buffer territory along the Israeli northern border (Perthes, 1997). The regime thus used Lebanon as a 'resistance card' against Israel without involving its own troops and endangering its own territory (Nasrallah, 1994: 134). From an economic angle, the Lebanese private banking system was crucial for the Syrian state bourgeoisie, who transferred their wealth into the dollar and stored it in Lebanese banks during the 1970s (IMF, 1975: 102). This was another crucial reason the Syrian armed forces intervened to end the anarchy of the Lebanese civil war (Lawson, 1984: 475).
4. There is no accurate figure on the amount of Syrian deposits in Lebanese banks. Estimates range from USD 5 to USD 6 billion in early 2005 before the pull-out of the Syrian troops (*The Monthly*, 2011).

5. Government investment in the agriculture sector decreased, amounting to less than 10 per cent of total investment during the 1970s' (Perthes, 1992b: 38). That was due to the change in state policies toward the agricultural sector that curbed crop planning and distribution while lowering government investment.
6. The regime provided a wide range of social and economic privileges to military officers to guarantee their loyalty and protect itself from an internal coup. Officers were granted access to cost-price articles, duty-free imports and interest-free loans (Michaud and Paul, 1982). Patronage became the main political weapon of the Assad regime to reinforce loyalty among the ruling elites (Sadowski, 1988: 166–7).
7. The deployment of Syrian troops in Lebanon also burdened the budget. Drysdale (1982a: 5) records that the military presence in Lebanon cost the Syrian budget about 1 million dollars per day. These expenses were backed by Saudi Arabia and other Arab states that supported the Syrian presence there (Drysdale, 1982a).
8. Law No. 24 was later rescinded in 2003 by LD 33 to ensure an encouraging environment for investment.
9. Other source reported USD four billion of concessional loans from the Gulf states (Zallio, 1995: 92).
10. According to SIA data, 98 per cent of licensed projects under Law No. 10 and its amendment LD No. 7 of 2000 were wholly private.
11. Apart from enjoying perks, amenities and social privileges, the state bourgeoisie charged substantial commissions on clients who wanted to side-step administrative procedures and waive license requirements (Sadowski, 1985 and Perthes, 1991).

6 Economic Liberalisation as an Irreversible Trend During the Bashar Regime: The Socioeconomic Fuel of the Syrian Crisis

1. On 10 June 2000, the military besieged Parliament voted to amend the constitution to lower the minimum age requirement for the presidency from 40 to 34 (Gambill, 2000a).
2. Total public debt in Syria was low, controlled nationally or provided at low concessional rates when international. It was not a burden and did not shackle state finance. Syria was lucky in the sense that it did not suffer from a balance of payments constraint, save in the mid-1980s when cash in the national currency was hauled across the border breaking capital control rules. Debt service represented only 6 per cent of export revenues and 3 per cent of government revenues (interview with Central Bank, 2007).
3. In February 2008, the US issued personal sanctions on Rami Makhluf, who according to the US Treasury Department made use of his close ties to the Assad regime to undertake illicit business activities and amass personal wealth. It was the first time that a US administration imposed sanctions against Syrian individuals based on charges related to domestic issues, such as corruption and misuse of public assets. This action and the US broader economic sanctions were meant to put political pressure on the Syrian regime and force it to

comply with its foreign policy. In 2001, the scandal of the cellular telephone contracts erupted. It showed that these contracts were highly profitable for the businessmen, who belong to the Makhluf family, but extremely costly to the government. Unofficial sources stated that Makhluf made around USD 20 million in 2001 from his monopolies in the Free Trade Zone and telecommunication business.

4. A survey was conducted to categorise the investment projects undertaken by local companies after economic liberalisation. The majority of business ventures were service complexes in the tertiary sector, which not only raised the price of property, but also undermined agricultural output. Some of these projects, such as 'Gateway of Aleppo' and 'Ya'fur' were implemented on fertile land that could have been used for agricultural production (Barout, 2011: 71–72).
5. In July 2008, the government enacted Law No. 15 to govern real estate investment. A new supervisory body, the Real Estate Development Authority (REDA), was established to govern investment in this sector. According to the new Law, investment in the real estate sector can also benefit from the facilities granted by LD. No. 8 (*The Syria Report*, 14 July 2008).
6. Apart from barter trade with Iraq that was short-lived experience before the fall of the Saddam regime, trade liberalisation was harmful to the Syrian industry. In 1997, when the Oil for Food programme came into effect in Iraq, Syrian industrialists pushed for an economic opening with Iraq (Perthes, 2001: 40), because Syrian products could not compete in international markets. Syria exported its goods to Iraq. In return, Iraq under the Saddam regime supplied Syria with oil deliveries at a discount rate.
7. In *Capital*, Vol. III, Ch. 36, Marx defines usury as being akin to merchant capital and in contrast to lending that is used to finance industrial projects whose returns can later service the loan (Marx, 1962).
8. Authors such as Hopfinger and Boeckler (1996: 198–99), Robinson (1998: 162), and Haddad (2002: 204) were critical of the state banking system. Their main argument is that the public banks were weak in basic banking tools, such as credit allocation or inter-bank funding. The state-run Commercial Bank was denounced for not being able to undertake a timely transfer of capital from Aleppo to Damascus, and that it did not have the capital and the technology necessary to finance investment on a sustainable scale.
9. The total cost of investment projects that were *licensed* under Law No. 10 accounted for 10 per cent of total GFCF during 1991–95, and 7 per cent during 1996–2000 and 66 per cent during 2001–06 (SIA, 2007 and Central Bureau of Statistics, 2008). The execution cost of these projects remains unknown.
10. Custom duties on imported cars for private use amounted to about 300 per cent of the import price (*The Syria Report*, 31 December 2001).
11. A rental agency that had about 300 cars in stock rented only two cars to foreign customers; the rest were allotted to local Syrians. The same situation applied to other agencies (Hopfinger and Khadour, 1999: 67).
12. Haddad (2004) provides an extended account on the formal and informal economic networks that emerged between the new commercial bourgeoisie – or the 'business community' – and state officials in the 1980s and the 1990s. According to Haddad, operations conducted under these networks were based

on back-door, semi-legal, or sometimes illegal deals. The names of state officials rarely appeared in the business contracts. However, their involvement in securing accounts and foreign exchange and in protecting and running the business was obvious.

13. Syria, like any other Arab country, cannot gain from FDI inflows because it lacks the level of absorptive capacity needed in the economy for FDI to have positive spill-over (Krogstrup and Matar, 2005).
14. Capital inflows to Syria from the Iraqi refugees increased after the US invasion of Iraq in 2003. The IMF in its Article IV report introduced a new category into the capital accounts of Syria that revealed inflows attributable to the Iraqi immigrants. Inflows from Iraqi immigrants increased from USD 457 million in 2004 to USD 803 million in 2005, then up to USD 1.3 billion in 2006 (IMF, 2009b). Moreover, remittances by Syrian expatriates were estimated to reach USD 850 million in 2008 (*The Syria Report*, 14 December 2008).
15. Iraq unofficially supplied Syria with 100,000 to 200,000 bpd of crude oil at a discounted price. In 2001, while Iraqi oil was sold at USD14 a barrel, Syria then exported and sold it at USD 26.7 a barrel (Haddad, 2002: 23). Their sale realised an estimated profit of USD 500–600 million in 2001. Other estimates show that total sales rose to USD 1 billion per annum when the pipeline operated at full capacity (Perthes, 2001: 40).

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